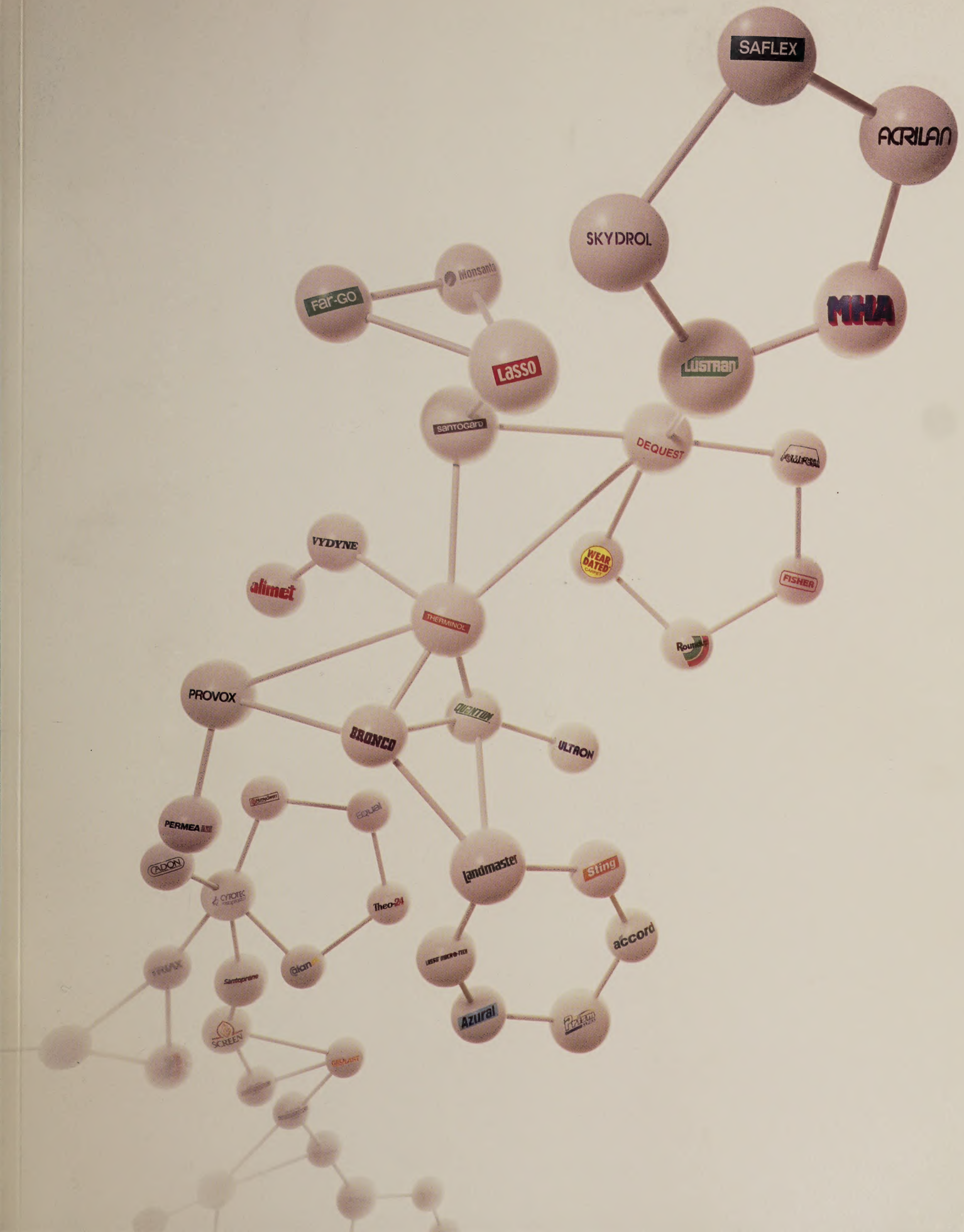
PERFORMANCE.



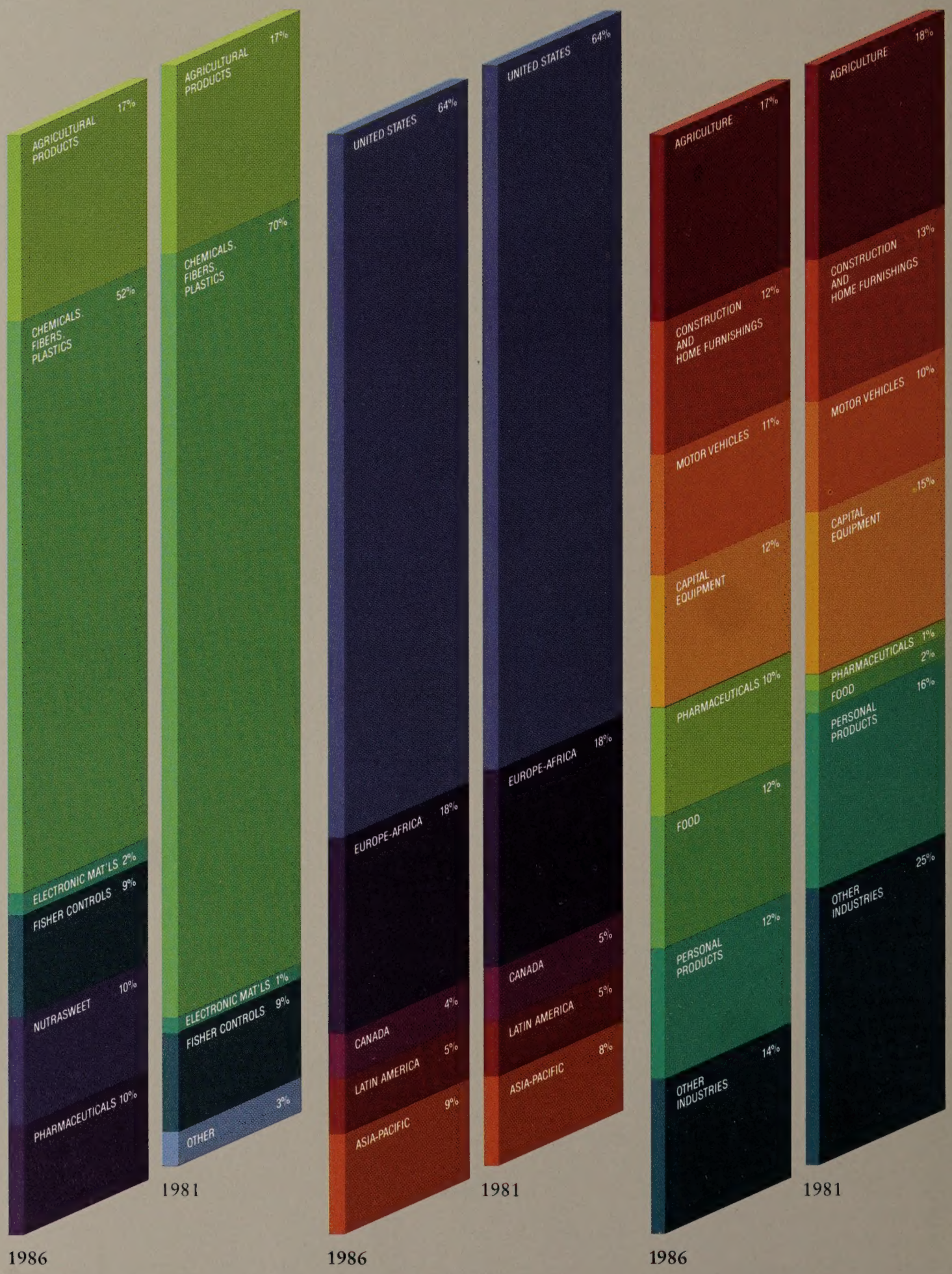
MONSANTO'S BUSINESS MIX HAS CHANGED OVER THE PAST FIVE YEARS

■ *Operating Units*
In chemicals, fibers and plastics, we have shifted away from commodities to value-added products. We have also added important new businesses.

■ *World Areas*
Our commitment to doing business worldwide remains strong.

■ *Major Markets*
Our markets continue to be diversified.

SALES MIX IN PERCENT



MONSANTO AT A GLANCE

Monsanto Company delivers value to customers and society by providing high-quality chemical and agricultural products, pharmaceuticals, low-calorie sweeteners, industrial process controls, man-made fibers, plastics and electronic materials. Building on our historic strengths in technology, we are aggressively developing new products to meet customer needs. At the same time, our 52,000 employees are committed to the highest standards of conduct in the more than 100 countries where we do business.

OPERATIONAL HIGHLIGHTS

Monsanto Company and Subsidiaries

(Dollars in millions, except per share)	1986	1985	1984
Net Sales	$6,879	$6,747	$6,691
Net Income (Loss)	$ 433	$ (98)	$ 439
Per Common Share:			
Net Income (Loss)	$ 5.55	$ (1.27)	$ 5.42
Dividends	2.575	2.45	2.25
Shareowners' Equity	48.69	44.38	46.43
Depreciation and Amortization	$ 780	$ 599	$ 503
Funds Provided by Operations	$1,050	$ 889	$1,008
Research and Development Expenses	$ 523	$ 470	$ 370
Percent of Total Debt to Total Capitalization	35%	45%	23%

Contents

Letter To Our Shareowners **2**
Performance Initiatives **5**
Financial Report Contents **16**
Board of Directors and Officers **40**
Shareowner Information **41**

Cover

Monsanto's ability to manipulate molecules is a unifying theme in its many products that benefit mankind. The cover shows a blend of old and new products, with many yet to emerge. Products on the cover are represented by trademarks and grade designations of Monsanto Company and its subsidiaries. Elsewhere in the Annual Report, Monsanto's trademarks are identified by italics.

Richard J. Mahoney

Chairman and
Chief Executive Officer

In last year's shareowners letter, we described the year just ended as "*The pivotal year in recent Company history. The decisions taken . . . will influence the Company's fortunes for years to come.*"

Nineteen eighty-six was the first "year to come." It was a glimpse at the potential of Monsanto. The many positive results reconfirmed the importance of the actions taken earlier. The parts that we didn't like about 1986 illustrate that the transformation is not yet complete.

In 1985, we moved out of essentially the last major segments of our underperforming commodity chemical assets. We promised in doing so that the new Monsanto product mix would be more dependent on *our* actions and less on the whims of external forces. The result: some of each.

Our actions in the Chemical Company unit — our largest — produced far lower overhead and added higher customer value to purchased raw materials — a combination that resulted in an outstanding year which was rewarded by the marketplace. All of our major chemical businesses produced higher profits, especially fibers. Several new products were launched as we continued to regenerate our product lines and grow selectively into new areas in chemicals, fibers and plastics. The external forces of a weaker dollar and lower oil prices were also positive and added to our own actions.

In last year's report, we said we'd intensified our efforts to move *Roundup* herbicide into new uses. In 1986, sales volumes of *Roundup* herbicide were up significantly — by far the largest growth year in the '80s. The whims of weather helped, but much of the gain was from strategy — new mixes and new positioning. The Agricultural Company increased earnings and still funded important new growth programs in crop chemicals and animal sciences. The exciting biotechnology program for increased milk productivity is on schedule, including a production facility under way.

G.D. Searle & Co. remains as we said last year: "*Current earnings are nonexistent — but the rewards look very promising indeed.*" A quick look at the financials on page 21 will certainly confirm the nonexistence of earnings. But the *promise* was enhanced by important developments: *Cytotec* prostaglandin — Searle's first major new pharmaceutical product in over a decade — has received clearance for sale in 24 countries. Approval is now pending in 30 others, including the United States. A second-generation tPA (tissue plasminogen activator) product is being developed to prevent and treat blood clots associated with heart attacks. This new product is based on Monsanto molecular biology coupled with research sponsored at Oxford and Washington universities. Added to this collaboration is unique Monsanto production technology to make large volumes of proteins by cell culture techniques. Other internally generated programs are moving along, but at the same time, we are strongly seeking external opportunities in the acquisition of product licenses or facilitating acquisitions. One licensed product, *Calan* (verapamil HCl), was recently approved in the United States for a new use in controlling high blood pressure. It achieved good market acceptance upon launch and is off to a fast start.

The NutraSweet Company continues to fulfill its promise — a superb and growing income source. The development of a strategy for maintaining this important franchise after the U.S. patent expires in 1992 is well under way. Last year we said to watch the "earnings power and durability" of our low-calorie sweetener. Events in the marketplace and in NutraSweet's plants and laboratories in 1986 justify that statement. Despite a slowdown at year-end, largely attributable to customer inventory reduction, it was a good year and a solid base for further gains in 1987 and beyond.

At the outset of this letter, perhaps euphemistically, we mentioned that some events illustrate that Monsanto's transformation is not yet complete. In silicon, we're ready, but the customers showed up only sporadically in the United States — our biggest market — which did not recover as we had hoped. Capacity utilization moved up from its 1985 low, but still not enough to put us in the black. While this asset after write-down in 1986 is just 3 percent of the total asset base of the Corporation, it is highly visible. In the 1985 Annual Report, we said we wouldn't make any more rosy forecasts — but let events speak for themselves. Silicon prospects still depend on a cyclical upturn in semiconductors that is not yet apparent.

Fisher Controls International, Inc., concluded

a poor year financially in 1986 with the sudden downturn in capital spending by oil, gas and chemical companies — nearly half of its current markets. In the business that *was* available, Fisher improved market share, particularly in *PRōVOX* control systems, installation and services. During the year, we took a number of actions that depressed Fisher's 1986 earnings but will improve future operating costs.

The result of Monsanto's successful strategy execution and favorable external events — the oil price reduction and $85 million from one-time net gains — brought net earnings to $433 million. This helped us deliver on last year's promise of impressive ability to generate cash. Monsanto retired $800 million of debt — bringing debt to total capitalization to 35 percent from the Searle acquisition high of 52 percent in 1985.

In this letter, we have focused our comments on the progress in 1986 on the promises made in 1985. We made another important statement in last year's report that will remain relevant for the years to come — and for purposes of emphasis, we repeat it here.

To your management, the job is very clear. We have invested substantial assets towards the future, and we must make the future happen as quickly as possible.

We know our stakeholders have both short-term and longer-term interests in the Company. Our intention to serve them is simple in concept. We intend to place Monsanto among the handful of great industrial enterprises in the world — the best in what we choose to do — measured by consistent returns for our many stakeholders.

It requires no new strategy. Those decisions are behind us. It does require these actions:

For the shareowner-stakeholders, this promise means aiming for a return on equity year after year in the 20 percent range. Our restructured product mix can get us there in the 1990s — we have a good balance now, and we intend to reach for this target.

For our customer-stakeholders, we must work every day to meet the highest standards of value, quality and service in the products we sell. Their rewards will be measured in how well we meet their needs.

For our employee-stakeholders, we must provide safe, meaningful and rewarding work in an environment in which each person has an equal opportunity to succeed. We want to ensure that Monsanto is a great place for our people to invest in their careers.

For our neighbor-stakeholders, we must strive for a lasting and rewarding partnership which respects their needs. We want our communities to benefit from the contributions of a desirable neighbor.

The job of the Board of Directors and your management is to serve each of these groups.

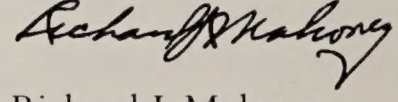
We're delivering. I've covered in the letter the returns we produced for today's shareowners. For tomorrow's shareowners, we're investing in market growth, inventing and licensing new products, developing new partnerships, making acquisitions, strengthening good assets and trimming those that don't meet expectations.

We're more responsive to our customers by mobilizing all parts of Monsanto to meet their needs and add value to what we sell. Our progress toward the total customer and market orientation we seek is still incomplete, but we're going in the right direction.

We have entered into a closer partnership with our plant communities, opening our doors to what we are doing and working jointly to ensure the safety of our neighbors. This year, we made strides in cleaning up the industrial wastes we disposed of based on the standards of yesterday, while investing in new technology to make our plants cleaner and safer for the future.

Monsanto's 86-year record of doing what's right for employees, within the overall need to prosper as a corporation, serves us well in a world where sustained change is the only certainty. We intend to provide challenge and opportunity with commensurate rewards. We seek innovation and dedication to achieving the great industrial enterprise status we have targeted. All of us will share the pride that stems from that accomplishment.

We have a clear view of the company we intend to be. The initiatives we must take to get there and examples of the good progress we have made so far are described in the following pages of this report. As we move forward, the rewards are coming for all our stakeholders.



Richard J. Mahoney
Chairman and
Chief Executive Officer

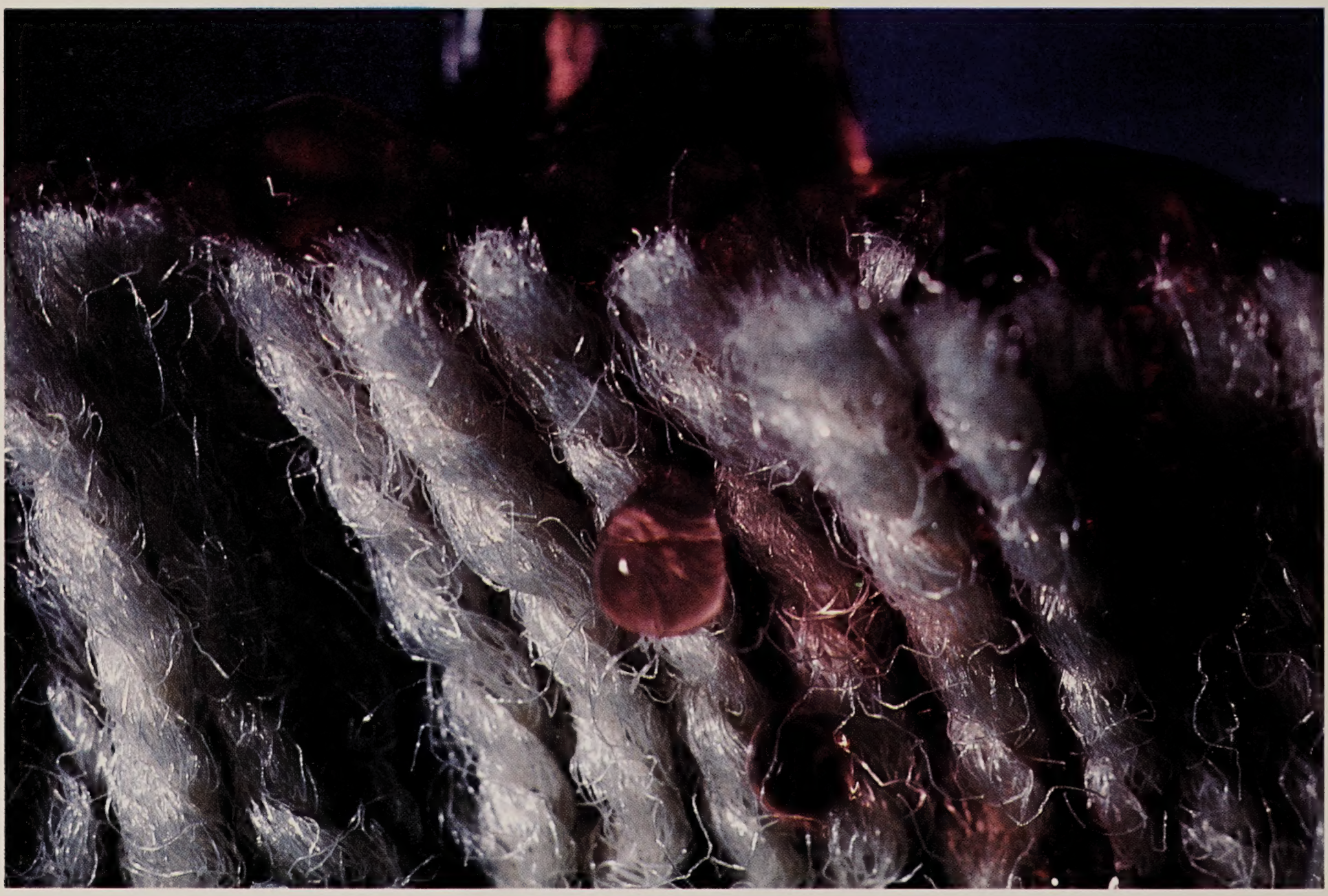
March 4, 1987

PERFORMANCE INITIATIVES

Monsanto is determined to be one of the world's truly great industrial enterprises, a company that delivers meaningful benefits to shareowners, customers, employees and neighbors. Essential to achieving this objective are consistent results from important performance initiatives set by management.

In 1986, the Company made solid progress against those initiatives. Although results are not yet flowing from every corner of the Company, we are generally on track for the targets we have set. And we have the products, the people and the technology to accelerate our momentum.

The following pages describe these initiatives and highlight Monsanto's progress against each. The review of results for Monsanto and its six operating units appears on pages 19 to 24.



WE MUST CONTINUE TO BALANCE LONG-TERM GOALS WITH SHORT-TERM RESULTS.

Monsanto is determined to be a leader in its chosen markets for the 1990s, but we must deliver results in the short-term as well as generate the resources needed for the coming decade. We will achieve this goal by aggressively managing good businesses, by inventing and licensing new products that meet customers' needs, and by moving out of businesses that prove unable to meet targets. The recent streamlining of Monsanto allows our managers to focus on doing just these things.

In addition, Monsanto is entering into new markets and expanding in existing ones by seeking partnerships with other enterprises. These complement our strong and growing partnerships with customers and research universities.

■ Near-term results are already evident. Monsanto's Chemical Company unit, which by itself would rank among the nation's 125 largest firms, doubled operating income to $464 million in 1986 — even after excluding one-time gains of nearly $150 million.

■ The popularity of *NutraSweet* brand sweetener gives The NutraSweet Company excellent momentum as new applications for the product are introduced. It is committed to leadership in quality, cost and technology. For example, production equipment at its Augusta, Georgia plant, although only two years old, is being replaced by important new technology to lower costs and keep its lead as the world's most efficient producer of aspartame.

■ In many Monsanto businesses, long-standing products have been bolstered to expand and protect their positions. *Roundup* herbicide continues on the growth track with new mixtures and product positioning. *Lasso* herbicide has held its position as the United States' leading corn and soybean herbicide. Recent tests show it outperforms the competition in delivering higher crop yields — and the marketplace responded to that. A 200-gallon reusable tank system was introduced as part of an aggressive marketing effort to help farmers save time and simplify handling. *Lasso Microtech,* developed in response to farmers' needs, controls weeds when used in conservation tillage for soybeans.

■ Searle is developing new applications and dosage forms to strengthen the market positions of its $665 million in existing product sales and is introducing new products, such as *Cytotec* for treating ulcers.

■ In the Monsanto Electronic Materials Company and Fisher Controls, we aggressively cut costs, got out of low-return product lines, and took other actions that will improve near-term returns.

■ For the longer term, Monsanto continues to take actions that will improve future earnings. In 1986, the Chemical Company unit alone invested nearly $350 million in research programs and manufacturing facilities around the world. In so doing, it is developing new products to strengthen its long-term future in key markets, such as home furnishings, automotive, laundry detergents, consumer appliances and construction. The stain resistance of *Wear-Dated* Gold Label carpet fiber, introduced in 1986, is a textbook example of successfully responding to what customers said they need.

■ Searle has increased its research and development to a level that ranks it among the world's leading pharmaceutical companies —an example of Monsanto's commitment to a steady stream of profitable life sciences products.

Top photo: Most food and beverage spills in the home are driven into the carpet by the force of the spill. New Wear-Dated *Gold Label carpet makes cleanup easier, particularly for the more difficult to remove stains.*

Bottom photo: The NutraSweet plant in Augusta, Georgia, began installing important new technology to strengthen the company's cost leadership in aspartame manufacturing.

WE MUST ADD GREATER VALUE TO ALL THE PRODUCTS MONSANTO PRODUCES.

Top photo: Marketing strategy is discussed for the many brands of glyphosate, the principal ingredient in Roundup, *to extend the reach of the world's most successful herbicide into more than 100 countries.*

Bottom photo: Saflex *interlayer is increasingly used in architectural glass for safety, insulation and noise control, as in this new terminal at Heathrow, London, the world's largest airport.*

The value we add to our products — over and above the purchased raw materials — has moved up substantially in the last five years and now accounts for two thirds of Monsanto's sales dollar. This resulted from our drive to increase the quality and performance of our products. The value-added approach also helps us strengthen our position in international markets, where lower-value commodity producers face fierce competition.

■ We have largely completed our move out of cyclical commodity petrochemicals to a product mix driven by our technology, our commitment to customer service and our management ability. Whereas cyclical businesses were about two-thirds of sales, they are now about half. This change means we are less at the mercy of external events and more in control of our results.

■ Monsanto Chemical Company (MCC) has undergone the most striking transformation. Adding value to such products as *Lustran* ABS plastics, *Acrilan* fibers and *Saflex* plastic interlayer has resulted in many new products that are helping drive MCC's evolution to a less cyclical, more profitable specialty producer.

Saflex is the world's leading plastic interlayer for the laminated glass used in automobile windows and architectural applications. Building on that leadership, Monsanto has achieved three major technological advances in *Saflex* manufacturing and is now incorporating them in its operations in the United States, Japan and Belgium.

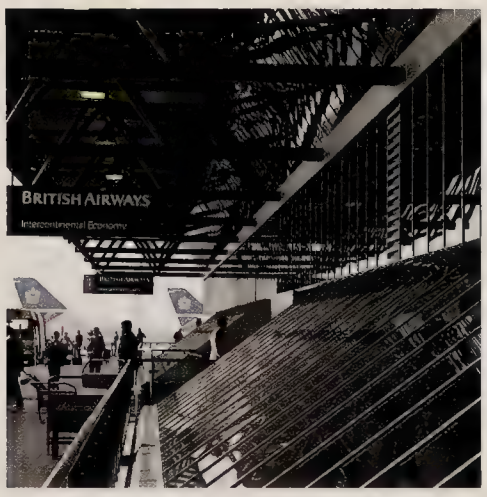
■ New applications and new market niches enhance the value of our successful businesses. For example, Monsanto Agricultural Company has developed *Roundup* L&G, a new lawn and garden formulation. It is specially designed for homeowners and sold through lawn and garden retailers and mass-merchandising outlets. Monsanto herbicides are now sold in over 100 countries for a wide range of agricultural, industrial and other uses.

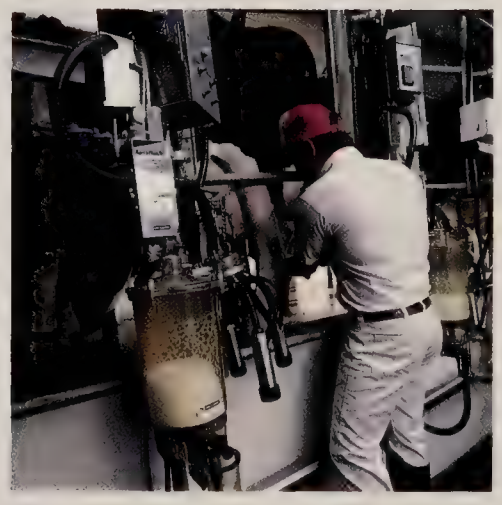
■ Monsanto employees are the most important contributors to the value we deliver. For example, MCC people have enthusiastically embraced a Total Quality Improvement process — doing things right the first time, whether making products or providing services. The results have won awards and praise from customers.

■ In late 1986, the U.S. Food and Drug Administration (FDA) approved *NutraSweet* brand sweetener for use in refrigerated fruit juices and other food categories. These were the FDA's most important new-use approvals for the product since 1983 and will provide consumers with additional food and beverage choices. It is already used in over 160 products in the United States and is approved for use in products in more than 50 other countries.

■ *PRōVOX* process controls add value to Fisher customers' plants by making their operations more efficient. In 1986, Permea, Inc., a Fisher subsidiary, introduced a new *Prism* Alpha unit that separates nitrogen from ordinary air. The nitrogen can be used to blanket perishable foods and grain to reduce spoilage and eliminate pests. This product moved from concept to commercialization in just seven months.

FAENA
Roundup
For about
Roundup


BRITISH AIRWAYS
Intercontinental Economy



WE ARE DETERMINED TO BE A LEADER IN DEVELOPING AND MARKETING LIFE SCIENCES PRODUCTS FOR HEALTH CARE AND AGRICULTURE.

Top photo: Nearly 60 million Americans have high blood pressure. Searle's new Calan *SR treats this problem and is one of a broad line of products for cardiovascular ailments.*

Bottom photo: Bovine somatotropin to improve the milk productivity of cows is being evaluated at various sites around the world, including Monsanto's Dardenne Farm in eastern Missouri.

The life sciences offer growth outside the traditional chemical industry, but in areas clearly related to our technological strengths. Capitalizing on the synergy of combining Monsanto's health care efforts with Searle's, we are embarked on building Searle into one of the world's leading pharmaceutical companies. In agriculture, Monsanto's profitable products are increasingly addressing farmers' needs for the high yields and efficiency that will help them stay competitive. For both efforts, developments in biotechnology are leading to new products with tremendous potential.

■ Monsanto's herbicides have long been leaders in their markets. We are also helping farmers stabilize costs and improve yields with livestock feed supplements, such as the popular *Alimet,* used in the poultry industry, and high-performance seed products. Over the longer term, Monsanto's biotechnology efforts will play a key role in the development of new products for those markets.

■ In fact, biotechnology will transform Monsanto's entire effort in the life sciences. One of the Company's first commercial products will be bovine somatotropin (BST), a protein that increases the efficiency of dairy cow milk production. BST is the kind of innovative product that can improve the profitability of dairy farmers, both large and small. Regulatory review for BST commercialization is progressing in several countries.

■ Though still in research, genetically engineered plants have been developed that are resistant to viruses that cause millions of dollars of damage each year to food crops. Plant genetic engineering is only four years old, and already its commercial applications are becoming clear.

■ *Cytotec,* an antiulcer drug from Searle, is fast gaining momentum in the $2.6 billion worldwide market for such products. Approved most recently in Argentina, it now is sold in 24 countries with approval pending in 30 others, including the United States. Searle's research has produced more products that have entered clinical trials, such as enisoprost, an antiulcer drug expected to be more potent than anything now on the market.

■ *Calan* SR (verapamil HCl), a Searle product already used for the treatment of angina, is now the first calcium-blocker drug approved in the United States for use in controlling high blood pressure. *Calan* corrects a cellular defect now thought to be an important factor in causing hypertension and it has far fewer side effects than traditional treatments.

■ Searle is licensing other companies' technology to supplement its product line. During 1986, it began one of the most extensive licensing program in the pharmaceutical industry and is reviewing more than 100 potential new products. As an outgrowth of these efforts, Searle has entered a cooperative venture for the development of new drug-delivery technologies.

■ Searle is developing a second-generation tissue plasminogen activator (tPA) product, which dissolves blood clots in coronary arteries. TPA has been labeled a very important development by industry observers. Searle is also developing an atrial peptide product that could provide a significant new way of using a natural body substance to control high blood pressure.

■ Successful commercialization of biotechnology takes more than good research. It takes effective government review to ensure the safety of products as well as public understanding of the benefits they will bring. Monsanto actively supports both. For example, we have an active education program to reinforce acceptance of our agriculture and animal health products.

OUR RESEARCH MUST CONTINUALLY RENEW OUR EXISTING BUSINESSES AND PRODUCE A STREAM OF PROFITABLE PRODUCTS TO MEET CUSTOMER NEEDS.

In 1986, Monsanto crossed over from being a capital-intensive company to a research-intensive company, with R&D investment exceeding capital investment. Research spending now equals nearly 8 percent of sales, up from 3 percent five years ago. We are working to quickly convert as much of this investment as possible into profitable products — in fact, more new products are in the pipeline than ever before.

■ Matching customer needs with our technical expertise helps us select the best products for accelerated development. These criteria have helped Searle sharpen its research focus by identifying a series of priorities for rapid development, including new uses for *Cytotec*.

■ Collaborative agreements with universities are one of Monsanto's most important research resources. These arrangements join the strengths and interests of Monsanto with such institutions as Washington, Oxford and Rockefeller universities. It's an asset that few of our competitors have — and none to the extent of Monsanto.

Focusing on the life sciences and human health care, the partnership between Monsanto and Washington University in St. Louis is aimed at developing new therapies for major human diseases. During 1986, Monsanto and Washington University extended their research agreement through 1990 and more than doubled the level of funding.

■ We spent $105 million in 1986 on research for product improvements and new products to regenerate our chemicals, plastics and fibers businesses. Results are coming. For example, in 1986 there were an unprecedented number of new fiber products, including nine new sweater yarns, a second-generation *Acrilan* acrylic fiber offering 50 percent improved wear in men's socks, and the new *Wear-Dated* Gold Label carpet fiber.

■ Close collaboration with customers is an important part of the research effort. This is demonstrated by the construction of a Plastics Applications Development Center at the Indian Orchard plant in Massachusetts. The facility, to be completed in 1987, will be used for joint research with customers on resins and their applications.

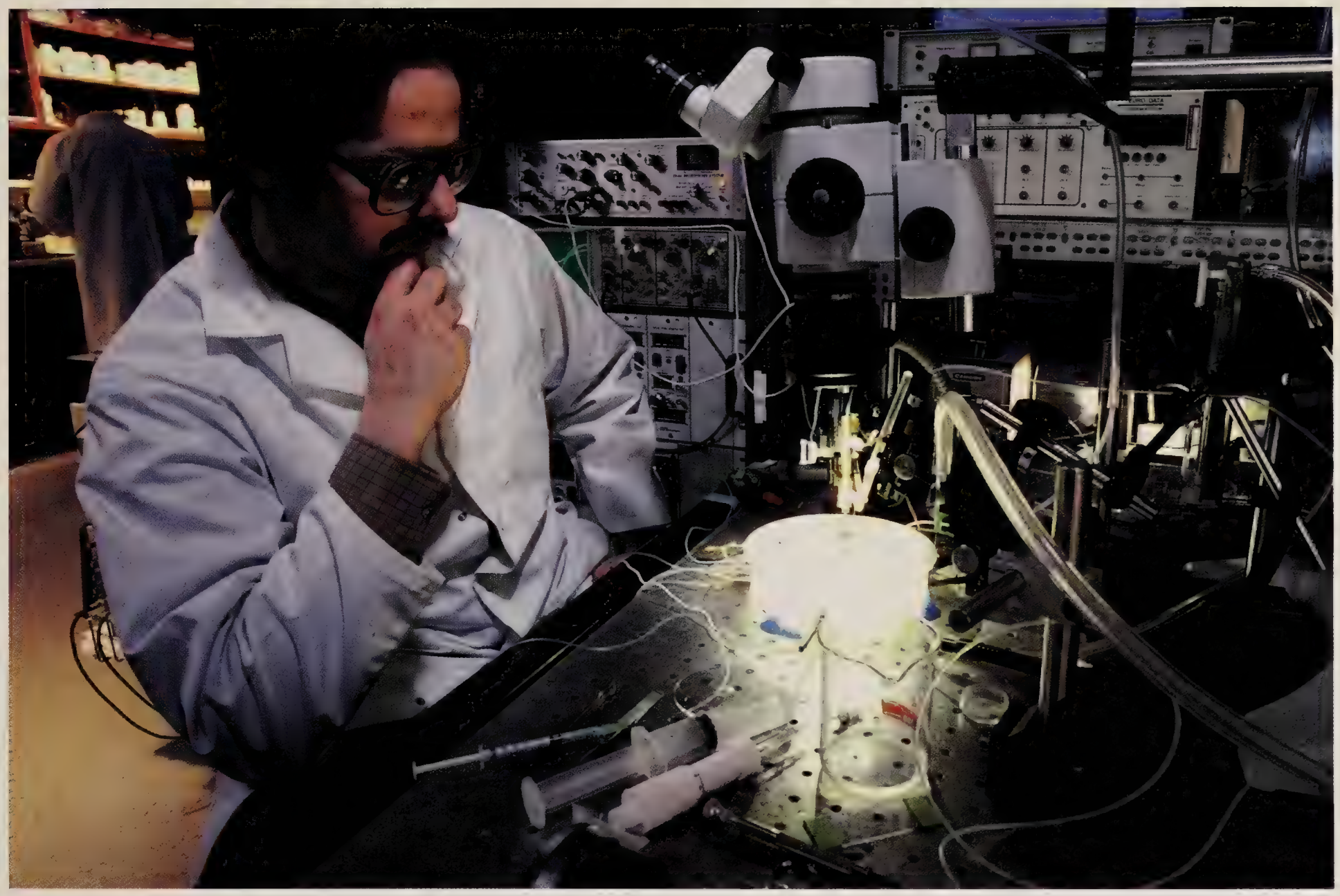
■ At Monsanto Agricultural Company, research is directed toward developing new products through synthesis and screening programs. But it takes looking at about 20,000 candidates to find one herbicide that has commercial value, and then another five to seven years to develop it for sale. Biotechnology researchers are developing plants that can resist *Roundup* herbicide so that it can be used for weed control in many commercial crops.

■ Research also supports existing products, such as maleic anhydride used in fiberglass reinforced plastics, food additives, agricultural chemicals and lubricating oil. We lead the world in this technology and have entered a research project with another company to explore the next generation of manufacturing processes.

■ NutraSweet opened a new research and development facility in 1986 that will house programs in production technology, new applications for aspartame, and the development of new sweeteners and other potential new products.

Top photo: Searle researchers test the effects of different pharmaceutical compounds while looking for products that prevent brain damage from heart attacks, strokes and comas.

Bottom photo: Research renews long-standing product lines. Simulating a detergent manufacturing process to test techniques, formulations and raw materials helps Monsanto maintain its leadership in the detergent market.



WE RECOGNIZE OUR RESPONSIBILITY TO BE A GOOD NEIGHBOR WHEREVER WE DO BUSINESS.

From worldwide industry matters to community needs in our plant cities, Monsanto brings the same determined, thoughtful, action orientation it uses in its businesses. We believe in meeting our responsibilities to our neighbors — and our successful financial performance lets us deliver on those responsibilities.

■ In a special program targeted at the thousands of Americans who suffer from hypertension, angina and other heart-related ailments but cannot afford the necessary medication, Searle is distributing, free, $10 million worth of *Calan* (verapamil HCl) through physicians. Without proper medication, one-third of these people would stand a substantial chance of suffering a stroke within one year.

■ In late July 1986, a convoy of 27 Monsanto trucks drove from Greenville, South Carolina, to central Michigan to collect more than 350 tons of donated hay for delivery to drought-stricken South Carolina farmers. The 1,900-mile mercy mission was the idea of two Monsanto transportation supervisors.

■ Helping the community is part of life for many Monsanto people. Florida Plant Technician Rodney Dunn and his wife open their home to provide temporary shelter for troubled children. "It's heartbreaking to see these kids who have no chance in life," he said. "I just want to be able to say I gave a child a little shot at making it."

■ Monsanto's philanthropic fund and management talent help in other ways, too. In Newport, United Kingdom, for example, we helped develop "Selfstart in Business," a program that gives young men and women the guidance and financial support to turn good ideas into thriving small businesses. Amid widespread unemployment, entrepreneurship offers these bright, imaginative youngsters challenges — and a future.

■ Monsanto's philosophy about safety and the environment has been distilled to one sentence: We will meet every mandated standard and requirement, and go beyond them if necessary to conduct our business responsibly around the world. To make that policy a 24-hour-a-day reality, more than 1,000 people spend about $200 million a year on programs and equipment to protect employees, property, neighbors and the environment. We are cleaning up wastes resulting from the less stringent standards of past years and using new technology to minimize any waste generated in the future.

■ Early in 1986, a Monsanto task force concluded a year-long examination of Company procedures for handling high-hazard materials. As a result, storage of high-hazard materials at Company facilities was reduced about 50 percent and handling procedures for some materials were tightened.

■ Overall safety performance in 1986 again placed Monsanto among the best in our industry. By the end of 1986, at the John F. Queeny plant in St. Louis, employees had worked more than four million hours without an injury serious enough to prevent a return to work the next day. Fewer than 1 percent of all industrial facilities ever achieve that performance level, according to the National Safety Council.

Top photo: Monsanto employees volunteer their time and talents to communities of all sizes. In inner-city St. Louis, a Fisher Controls employee teaches youngsters about business.

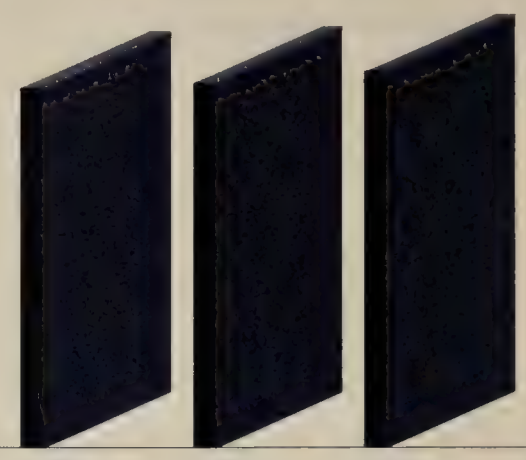
Bottom photo: Monsanto's Newport, United Kingdom, plant helped spearhead "Selfstart in Business" to guide entrepreneurs such as Lesley Ann Tull, who started a knitwear business that now employs two full-time and 10 part-time workers.

FINANCIAL REPORT CONTENTS

Management Report	17
Independent Auditors' Opinion	17
Statement of Consolidated Income	18
Review of Consolidated Results of Operations	19
Operating Unit Segment Data	21
Geographic Data	24
Research and Development	26
Quarterly Data	27
Statement of Consolidated Financial Position	28
Review of Liquidity and Capital Resources	29
Statement of Changes in Consolidated Financial Position	30
Review of Sources and Uses of Funds	31
Statement of Consolidated Shareowners' Equity	32
Notes to Financial Statements	33
Significant Accounting Policies	33
Reclassification	33
Basis of Consolidation	33
Currency Translation	33
Principal Acquisitions	33
Restructuring	34
Depreciation and Amortization	34
Inventory Valuation	34
Income Taxes	35
Earnings per Share	35
Supplemental Data	35
Employee Retirement Benefits	36
Short-Term Debt and Credit Arrangements	37
Long-Term Debt	37
Capital Stock	37
Stock Option Plans	38
Commitments and Contingencies	38
Segment Information	38
Financial Summary	39

Unless otherwise indicated by the context, "Monsanto" means Monsanto Company and consolidated subsidiaries, and "the Company" means Monsanto Company only. All dollars are in millions, except per share data.

Net Sales



Year	1984	1985	1986
Dollars in Millions	$6,691	$6,747	$6,879

Net Income (Loss)

Year	1984	1985	1986
Dollars in Millions	$439	$(98)	$433

Funds Provided By Operations

Year	1984	1985	1986
Dollars in Millions	$1,008	$889	$1,050

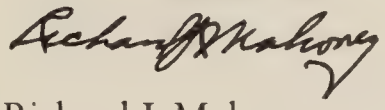
MANAGEMENT REPORT

Monsanto Company management is responsible for the fair presentation and consistency of all financial data included in this Annual Report. Where necessary, the data reflect management estimates.

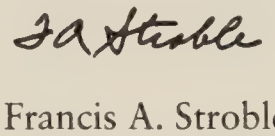
Management also is responsible for maintaining a system of internal accounting controls to provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that authorized transactions are properly recorded to permit the preparation of accurate financial data. Cost-benefit judgments are an important consideration in this regard. The effectiveness of internal controls is maintained by: (1) personnel selection and training; (2) division of responsibilities; (3) establishment and communication of policies; and (4) ongoing internal review programs and audits.

As ratified by shareowner vote at the 1986 Annual Meeting, Deloitte Haskins & Sells was appointed to examine, and express an opinion as to the fair presentation of, the consolidated financial statements. This opinion appears below.

Monsanto's Audit Committee, consisting of six non-employee directors, meets with Controllership, Internal Audit and Deloitte Haskins & Sells personnel to review internal controls, financial reporting and accounting practices. Deloitte Haskins & Sells and internal auditors meet with the Committee, with and without management present, to discuss their examinations, the adequacy of internal controls and the quality of financial reporting.



Richard J. Mahoney
Chairman and
Chief Executive Officer



Francis A. Stroble
Senior Vice President and
Chief Financial Officer

February 27, 1987

INDEPENDENT AUDITORS' OPINION

To the Shareowners of Monsanto Company:

We have examined the statement of consolidated financial position of Monsanto Company and Subsidiaries as of December 31, 1986 and 1985 and the related statements of consolidated income, shareowners' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Monsanto Company and Subsidiaries at December 31, 1986 and 1985, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles. These principles were consistently applied during the period except for the change, with which we concur, in 1986 in the method of determining pension expense as described in the Employee Retirement Benefits note to the financial statements.

Saint Louis, Missouri
February 27, 1987

STATEMENT OF CONSOLIDATED INCOME

(Dollars in millions, except per share)	1986	1985*	1984
Net Sales	$6,879	$6,747	$6,691
Cost of goods sold	4,344	4,841	4,839
Gross Profit	2,535	1,906	1,852
Marketing and administrative expenses	1,244	919	722
Technological expenses	596	548	446
Amortization of intangible assets	218	88	7
Restructuring expense (income) — net	(158)	949	
Operating Income (Loss)	635	(598)	677
Interest expense	(201)	(178)	(100)
Interest income	41	63	92
Gain from sale of oil and gas operations		392	
Other income — net	161	23	38
Income (Loss) Before Income Taxes and Extraordinary Gain	636	(298)	707
Income taxes	203	(170)	268
Income (Loss) Before Extraordinary Gain	433	(128)	439
Extraordinary gain from debt repayment		30	
Net Income (Loss)	$ 433	$ (98)	$ 439
Earnings per Share:			
Before extraordinary gain	$ 5.55	$ (1.67)	$ 5.42
Extraordinary gain		0.40	
After extraordinary gain	$ 5.55	$ (1.27)	$ 5.42

**Restructuring expense (income) — net has been reclassified. See notes to financial statements.*
The above statement should be read in conjunction with pages 33 through 38 of this report.

Key Financial Statistics

	1986	1985	1984
As a Percent of Sales:			
Gross Profit	37%	28%	28%
Marketing and Administrative Expenses	18	14	11
Research and Development Expenses	8	7	6
Operating Income (Loss)	9	(9)	10
Net Income (Loss)	6	(1)	7
Effective Income Tax Rate	32	(57)	38

1986 Was an Important Transition Year

The year 1986 represented an important transition for Monsanto Company, following the acquisition of G.D. Searle & Co. and The NutraSweet Company and several years of restructuring actions. Net income was $433 million in 1986, compared with a net loss of $98 million in 1985. The net loss in 1985 resulted from costs associated with the restructuring program. Earnings per share for 1986 were $5.55, compared with a 1985 loss of $1.27 per share.

Operating performance for 1986 was strong, with Monsanto's chemicals, plastics and fibers products, *Roundup* herbicide and *NutraSweet* low-calorie sweetener performing well and accounting for most of the improvement over 1985 operating results. Searle made progress in expanding acceptance of several drugs in international markets. The performance of Electronic Materials and Fisher Controls, however, was very disappointing.

Restructuring Actions Benefit 1986 Operating Performance

The strategies planned in recent years, and particularly the restructuring actions taken in 1985, yielded significant profit benefits in 1986. Beginning in late 1985 and continuing in 1986, Monsanto divested numerous low-return and non-strategic businesses and assets. In addition, the Company streamlined operations by reducing the number of employees and levels of management. Management continues its efforts to strike a positive balance between long-term growth and near-term enhancement of shareowner value.

Sales Increased and Mix Changed

Net sales increased to $6,879 million, compared with $6,747 million in 1985. Two factors affect this comparison. First, net sales of products that were subsequently divested as part of the restructuring program ($931 million) were included only in 1985. Second, the acquired Searle and NutraSweet businesses were included for only the last five months of 1985, versus a full twelve months of 1986. On a comparable basis, sales volume increased 3 percent. Worldwide selling prices increased 1 percent due to the translation of stronger ex-U.S. currency-denominated selling prices into U.S. dollars. Excluding the impact of ex-U.S. currency translation, worldwide selling prices decreased 2 percent.

The gross profit margin improved significantly in 1986 to 37 percent, as compared with 28 percent in 1985. The full-year effect of higher margins associated with Searle and NutraSweet products, lower raw material costs and the benefits of the 1985 restructuring program were the principal contributing factors. Partially depressing the improved gross profit margin was the $90 million obsolescence charge for the Electronic Materials property write-down. Overall, raw material costs declined approximately 8 percent.

The year-to-year increase in marketing and administrative expenses reflected the inclusion of the Searle and NutraSweet businesses for a full year, with their heavier marketing-related expenses, and the translation effect of ex-U.S. currency-denominated expenses into U.S. dollars. Excluding Searle and NutraSweet, and the impact of ex-U.S. currency translation, marketing and administrative expenses increased 5 percent.

Technological expenses in 1986 were $596 million, including $523 million of research and development expenses. Patent, engineering and commercial development expenses comprise the rest of technological expenses. The 9 percent increase in 1986 technological expenses over 1985 is due to Monsanto's continuing commitment to research and development programs and the acquired Searle and NutraSweet businesses. R&D expenses were 8 percent of sales in 1986, compared with 7 percent in 1985. Increases in the level of R&D expenses continue to be directed toward emerging technologies. Searle made progress in eliminating duplicate research efforts, thus increasing the efficiency of the Searle and Monsanto programs.

Amortization of intangible assets increased as a result of a full year's amortization of the acquired Searle and NutraSweet patents and other intangible assets.

Many Factors Led to Improved Income

Operating income in 1986 was $635 million, compared with an operating loss of $598 million in 1985. The operating loss in 1985 resulted from the net restructuring expense of $949 million. The benefits of the 1985 restructuring program, higher sales volumes of most continuing product lines, a more profitable product mix, lower raw material costs and an improved economic climate throughout the world (including a weaker U.S. dollar) all contributed to higher operating income in 1986. Included in 1986 operating income was $158 million of restructuring income ($97 million after related taxes, or $1.25 per share) and the $90 million charge for the Electronic Materials property write-down ($46 million after related taxes, or $0.59 per share).

The 1986 restructuring income primarily resulted from the sale of certain product lines associated with the Texas City, Texas petrochemicals production facility, which was planned for divestiture under the 1985 restructuring program. Included in 1986 other income were $88 million of gains from the sales of product lines that were not part of the 1985 restructuring program, including acetic acid (which was part of the Texas City plant sale) and various small product lines, along with royalty income and currency gains. The sale of the Texas City plant and related assets resulted in a $175 million gain ($114 million after related taxes, or $1.46 per share).

Interest expense was higher in 1986 reflecting the full year's cost of a higher debt level resulting from the acquisition of Searle and NutraSweet. Interest income declined in 1986 due to lower interest rates and securities investment levels.

Net income in 1986 benefited from the adoption of the Financial Accounting Standards Board's new pension accounting rule, which reduced 1986 pension cost by $49 million ($25 million after related taxes, or $0.32 per share).

The impact of prior years' inflation is not completely reflected in companies' historical cost financial statements. The reason is that the cost of an asset today (current cost) is generally higher than its original cost (historical cost). As a result, historical cost depreciation expense included in the income statement is lower than depreciation expense using the current cost approach. For Monsanto, current cost depreciation expense in 1986 (based on construction and equipment indexes) would have been approximately $80 million higher than historical cost depreciation expense.

In October 1986, the Tax Reform Act of 1986 (the Act) was enacted. The Act reduces corporate income tax rates in 1987 and 1988, but eliminates investment tax credits that have reduced income tax expense for Monsanto in the past. The Act did not have a significant impact on Monsanto in 1986, nor is it expected to have a significant impact in 1987.

Net sales in 1985 increased from 1984, as the additional 1985 net sales of the acquired Searle and NutraSweet businesses more than offset the volume and price declines in other businesses. Sales volume declined 4 percent, excluding divestitures and the acquisition of Searle and NutraSweet, and selling prices declined 3 percent. Weak conditions in several of Monsanto's markets, particularly agriculture and semiconductors, and the cost of the restructuring program, resulted in an operating loss in 1985. The effect of the restructuring program was $949 million ($542 million after related taxes, or $7.04 per share). Also occurring in 1985 was a $392 million gain ($201 million after related taxes, or $2.61 per share) from the sale of the oil and gas operations. The strength of the U.S. dollar fueled heavy 1985 imports from international competitors. The net loss was partially offset by an extraordinary gain of $30 million ($0.40 per share) from the repayment of long-term debt at a discount.

Analysis of Change in Earnings per Share — Better (Worse)

	1986 vs. 1985	1985 vs. 1984
Sales Related Factors:		
Selling prices	$ 0.28	$(1.18)
Sales volume and mix	0.69	(1.98)
Total Sales Related Factors	0.97	(3.16)
Cost Related Factors:		
Raw material prices	1.28	0.52
Other manufacturing costs	0.09	0.40
Marketing, administrative and technological expenses	(0.49)	(0.42)
Nonrecurring costs (including Electronic Materials property write-down)	(0.98)	
Total Cost Related Factors	(0.10)	0.50
Other Factors:		
Acquisitions		
Operations	1.31	0.75
Intangible asset amortization	(0.87)	(0.62)
Restructuring — net	8.29	(7.04)
Divestitures	(0.48)	0.03
Total Other Factors	8.25	(6.88)
Operating Income	9.12	(9.54)
Interest expense		
Acquisition related	(0.20)	(0.84)
Other	0.06	0.24
Interest income	(0.15)	(0.22)
Gain from sale of oil and gas operations	(2.61)	2.61
Other income — net	0.92	(0.11)
Change in income taxes	0.15	0.65
Shares outstanding	(0.07)	0.12
Change in Income Before Extraordinary Gain	7.22	(7.09)
Extraordinary gain	(0.40)	0.40
Change in Earnings per Share	$ 6.82	$(6.69)

OPERATING UNIT SEGMENT DATA

	Net Sales			Operating Income (Loss)			Research and Development		
	1986	1985	1984	1986	1985	1984	1986	1985	1984
Agricultural Products:									
Crop Chemicals	$1,067	$1,073	$1,256	$ 318	$ 177	$438	$ 94	$110	$107
Animal Sciences	86	79	82	(35)	(92)	(49)	41	32	22
Chemicals	3,548	4,051	4,360	613	(480)	336	105	128	131
Electronic Materials	154	137	220	(139)	(84)	4	15	16	14
Fisher Controls	645	652	550	(66)	34	27	21	20	23
NutraSweet	711	317		142	58		25	11	
Pharmaceuticals	665	262	15	(119)	(139)	(30)	177	96	24
Oil and Gas		172	203		16	27			
Biotechnology Product Discovery				(41)	(31)	(24)	39	31	24
Corporate Items and Eliminations	3	4	5	(38)	(57)	(52)	6*	26*	25*
Total consolidated	$6,879	$6,747	$6,691	$ 635	$(598)	$677	$523	$470	$370

**Corporate R&D expenses are allocated on a weighted average basis of investment to operating units in determining operating income (loss).*

	Total Assets			Capital Expenditures			Depreciation and Amortization		
	1986	1985	1984	1986	1985	1984	1986	1985	1984
Agricultural Products:									
Crop Chemicals	$ 939	$1,061	$1,236	$ 55	$ 84	$ 88	$ 84	$ 89	$ 80
Animal Sciences	217	174	184	33	31	31	21	21	20
Chemicals	2,704	2,982	3,222	244	291	279	236	248	273
Electronic Materials	228	302	280	51	55	47	122	37	30
Fisher Controls	612	636	536	38	53	32	36	28	21
NutraSweet	1,883	1,862		39	4		205	73	
Pharmaceuticals	1,394	1,438	80	53	33	7	67	39	7
Oil and Gas			578		85	107		59	69
Biotechnology Product Discovery	50	33	31	6	3	17	7	2	1
Corporate Assets	242	389	226	1	6	6	2	3	2
Total consolidated	$8,269	$8,877	$6,373	$ 520	$ 645	$614	$780	$599	$503

The above data should be read in conjunction with the Segment Information note to the financial statements on page 38.

In accordance with the recently issued Securities and Exchange Commission Staff Accounting Bulletin No. 67, operating income (loss) reflected in the operating unit segment data above has been restated to include the income (expense) associated with the restructuring program. The effect of the restructuring program on each operating unit segment for 1986 and 1985 is shown below.

	Income (Expense)	
	1986	1985
Agricultural Products:		
Crop Chemicals	$ (4)	$(121)
Animal Sciences	8	(37)
Chemicals	149	(714)
Electronic Materials	1	(17)
Fisher Controls		(2)
Pharmaceuticals		(55)
Corporate Items	4	(3)
Increase (decrease) in operating income	$158	$(949)

Crop Chemicals

Net Sales	1986	1985	1984
Herbicides and other agricultural chemicals	$1,067	$1,073	$1,256

The Crop Chemicals operating unit is a leading worldwide producer of agricultural herbicides, including *Roundup, Lasso, Avadex* BW and *Machete* herbicides.

The Crop Chemicals business overcame an extremely weak United States agricultural environment to post a solid performance in 1986, and a year-to-year improvement in operating results. Crop Chemicals sales, however, were essentially level year-to-year, but operating income in 1986 increased 80 percent. Operating income for 1985 was reduced by $121 million of restructuring expense. Sales volume growth in 1986 for *Roundup* herbicide throughout the world more than offset lower sales volume of *Lasso* herbicide. Triggered by a new pricing strategy, the use of *Roundup* herbicide to control perennial and annual weeds brought strong worldwide demand. Additional demand in the United States came

from the industrial and residential markets. *Lasso* herbicide, which is sold principally in the United States to control grassy weeds in corn and soybean crops, was adversely affected by reduced plantings of these major crops due to the poor United States farm economy.

In 1986, the United States Environmental Protection Agency (EPA) issued a proposed regulatory decision as part of their Special Review of the benefits and potential risks of *Lasso* herbicide. The proposed regulatory decision would permit the continued use of alachlor (the active ingredient of *Lasso* herbicide) for all major crops, with certain conditions and label modifications, including "restricted use" classification. This classification would mean that use of *Lasso* herbicide would be restricted to certified applicators, or persons under their supervision, and to the method of application. The Company expects a final decision by the EPA in 1987. Monsanto's tests confirm that *Lasso* herbicide poses no unreasonable adverse effects to humans or the environment when used properly. No significant effect on financial results is expected from this review.

Crop Chemicals sales and operating income in 1985 declined 15 percent and 60 percent, respectively, from 1984 due to the costs associated with the restructuring program and lower sales volumes and prices in certain products. Sales volume of *Lasso* herbicide decreased 20 percent due to the weak United States farm economy, and was further affected by uncertain customer demand for the 1986 season. Worldwide usage of *Roundup* herbicide increased in 1985, but sales volume declined 2 percent, as United States customers reduced inventory levels. Strong demand for *Roundup* herbicide in other world areas partially offset lower United States sales.

Animal Sciences

Net Sales	1986	1985	1984
Animal products	$86	$79	$82

The Animal Sciences business focuses on animal nutrition and growth products, including *Alimet* animal feed supplement and BST, a bovine growth promotant that research indicates enhances the efficiency of milk production.

Sales for 1986 increased 9 percent over 1985. Sales volume of *Alimet* animal feed supplement increased significantly in 1986, but was partially offset by the elimination of sales of discontinued products, which were included in 1985 operating results. Progress continues to be made on BST, and management expects to begin ex-U.S. commercialization in 1988. A BST manufacturing facility is being constructed in Austria by a third party who will operate the facility for Monsanto. Continuing high levels of R&D expenses, principally for BST development, resulted in an operating loss in each of the last three years. The loss was lower in 1986 as a result of increased *Alimet* animal feed supplement sales, while 1985 included charges associated with the restructuring program.

Sales for 1985 declined 4 percent, as higher sales volume of *Alimet* animal feed supplement was offset by lower selling prices, resulting from ex-U.S. competition. Heavy R&D expenses, principally related to BST, the costs associated with the restructuring program and expanded marketing efforts resulted in an operating loss for 1985.

Chemicals

Net Sales	1986	1985	1984
Detergent materials	$536	$ 550	$ 577
Engineered products	205	251	281
Man-made fibers	856	1,080	1,194
Plastics	639	804	874
Resin products	584	637	693
Rubber chemicals and instruments	319	283	310
Specialty chemicals	409	446	431

Monsanto's worldwide chemicals unit produces a wide range of chemicals, plastics, fibers and other products listed in the table above.

Following several years of planned restructuring and cost reduction programs, the Chemicals businesses had an outstanding income performance in 1986. Operating income in the restructured, continuing higher-margin businesses improved significantly through efforts to increase gross margins, aided by favorable raw material and utilities costs, lower cost from reduced personnel, higher sales volumes and increased plant efficiencies.

Compared to 1985, however, sales declined in 1986 due to divested product lines. Sales related to the divested product lines were $645 million in 1985. For continuing product lines, 1986 sales volumes increased 4 percent. Selling prices were level in 1986, reflecting positive translation effects of ex-U.S. currency denominated sales which were offset by lower domestic prices.

Operating income improved significantly to $613 million in 1986, as compared with a $480 million operating loss in 1985. The 1985 loss resulted from the $714 million net expense associated with the restructuring program. All major businesses, led by fibers, achieved higher year-to-year profitability. Sales of various other products to the automotive, appliance and home furnishings industries also remained relatively strong throughout 1986. The weaker U.S. dollar also benefited the Chemicals segment operating performance, generating positive translation effects on ex-U.S. operations and increasing the competitiveness of Monsanto's United States produced products in world markets.

Product lines sold during 1986 that were not part of the 1985 restructuring program were acetic acid, paper chemicals and vanillin. In addition, Monsanto has announced its intention to sell the container business in early 1987. Sales of these products in 1986 were $164 million. As part of the 1985 restructuring program, the Seal Sands, United Kingdom plant was sold in

December 1985, and the Texas City, Texas plant was sold in August 1986. Various other product lines and facilities were shut down in 1986, including the Columbia, Tennessee plant.

Sales in 1985 declined 7 percent, as compared with 1984. This segment had an operating loss as a result of the costs associated with the 1985 restructuring program. Intense import competition and stagnant United States economic sectors associated with many of this segment's product lines resulted in lower selling prices and volumes for many of the product lines. The effects of lower plant capacity utilization rates in 1985 were partially offset by the benefits obtained from cost reduction programs and lower raw material costs.

Electronic Materials

Net Sales	1986	1985	1984
Electronic-grade silicon materials	$154	$137	$220

The Electronic Materials business produces electronic-grade silicon wafers for the semiconductor industry and has production facilities in Japan, South Korea, Malaysia, the United Kingdom and the United States. The facilities in Japan and the United Kingdom began production in 1986, and the facility in South Korea began production in early 1987.

Sales in 1986 were higher than 1985, but still weak due to the prolonged downturn of the United States electronics end-user equipment markets, primarily the computer and office equipment segments. Ex-U.S. sales continued to grow in 1986. Operating losses increased significantly in 1986 as a result of the $90 million pre-tax write-down of property, plant and equipment values. The decision to write down these assets was made in recognition of reduced growth in the worldwide semiconductor industry, coupled with a continuing shift of demand to Japanese and other Pacific Basin producers of semiconductor devices. The reduced growth is compounded by the difficulty in effectively penetrating the large Japanese market. The write-down reduced asset values to a level more properly reflecting future cash flows under projected market conditions, principally for the United States operations. Also in 1986, the company reduced the number of employees, reduced manufacturing costs and discontinued certain technical programs not related to current product lines. Actions taken in the past few years have significantly reduced Monsanto's break-even point in plant capacity utilization, which will benefit this segment in the future.

Sales in 1985 declined 38 percent from 1984, reflecting sharply lower demand for silicon wafers in the depressed semiconductor market during the second half of the year. This resulted in an operating loss in 1985. The operating loss in 1985 was increased by costs associated with the restructuring program.

Fisher Controls

Net Sales	1986	1985	1984
Valves, regulators, electronic process controls and gas separation systems	$645	$652	$550

Fisher Controls is a leading worldwide producer of industrial valves and regulators, as well as state-of-the-art *PRōVOX* electronic process control systems and gas separation systems.

Fisher Controls experienced a difficult year in 1986. Sales declined 1 percent in 1986, and operating income declined from $34 million in 1985 to a loss of $66 million in 1986. Demand for control valves and gas separation systems was weak as a result of poor economic conditions in the oil and gas industry, and lower capital spending by customers in the chemical industry. Sales of *PRōVOX* systems increased slightly in 1986. Fisher Controls' engineering and installation business, however, experienced a significant increase in European sales in 1986.

The 1986 operating loss resulted principally from depressed sales to the important oil and gas and chemicals industries and from actions taken in late 1986 to reduce future operating costs. These actions included reducing employment 14 percent worldwide in the process control business, discontinuing certain low-return product lines and consolidating certain facilities. The objective of these actions is to return Fisher Controls to profitability in 1987.

Sales in 1985 increased 19 percent from 1984 as sales of *PRōVOX* instrumentation systems grew and selling prices for other products were higher. Sales of gas separation systems also increased significantly. Operating income improved 26 percent, as these positive factors were partially offset by higher levels of marketing effort associated with launching *PRōVOX*, an operating loss of a small company acquired in 1985 and currency devaluations in Mexico.

NutraSweet

Net Sales	1986	1985*
NutraSweet low-calorie sweetener products	$711	$317

**For the five-month period August-December 1985.*

The NutraSweet Company manufactures *NutraSweet* brand sweetener, a low-calorie sweetening ingredient, which is sold worldwide. The company also markets the low-calorie tabletop sweetener *Equal* throughout the United States.

The NutraSweet Company continued its strong performance in 1986, with sales of $711 million and operating income of $142 million. Sales and operating income included in 1985 were for the August-December period only, following the acquisition of this business by Monsanto. Product sales in 1985 included $49 million of certain consumer products which were divested in December 1985.

Sales in 1986 reflected the market performance of retail products containing *NutraSweet* and changes in inventory levels throughout the distribution chain. The sugar-free segment of carbonated soft drinks, the largest market for *NutraSweet,* continued to grow as it has in the past few years. However, the powdered soft drink market declined in 1986, resuming a long-term declining trend that had been temporarily reversed by the introduction of *NutraSweet* brand sweetener in 1983.

In November 1986, the Food and Drug Administration approved *NutraSweet* for use in several new food categories, including refrigerated juice drinks in concentrate and ready-to-drink form, and ready-to-eat frozen confections on a stick.

Operating income in 1986 reflected the impact of amortization expense related to intangible assets recorded as part of the acquisition. Operating income benefited from lower raw material costs and additional manufacturing efficiencies. A new process technology is being installed at the Augusta, Georgia manufacturing facility and is scheduled to be completed in early 1987.

Sales in 1985 benefited from the leading companies in the carbonated soft drink industry converting from a *NutraSweet*/saccharin formulation to 100 percent *NutraSweet.*

Pharmaceuticals

Net Sales	1986	1985*	1984
Pharmaceutical products	$665	$262	$15

**Includes Searle for the five-month period August-December 1985.*

This segment includes the worldwide prescription pharmaceutical business of G.D. Searle & Co. Searle is investing heavily in the research and development programs necessary to introduce new prescription pharmaceuticals.

Sales increased to $665 million in 1986 and were 10 percent higher than the full year 1985, including the period prior to acquisition. Sales in 1986 benefited from more favorable ex-U.S. currency translation and increased sales of physician-promoted products such as *Calan* and *Demulen 35.* Sales of *Cytotec,* Searle's ulcer treatment drug, continued to grow in many ex-U.S. markets. *Cytotec* was introduced in West Germany, Brazil and Canada in 1986 and work continues toward eventual registration of the drug for sale in the United States, the United Kingdom and Japan. Sales of certain mature products, such as *Norpace* and *Flagyl,* declined. Operating losses in 1986 and 1985 resulted from the continuing research efforts in human health care. The operating loss in 1985 was also affected by the costs of the restructuring program.

Sales in 1985 included the acquired Searle product lines for the August-December period only, following acquisition by Monsanto. Operating losses in 1985 and 1984 included Monsanto's pharmaceutical research effort.

Biotechnology Product Discovery

	1986	1985	1984
Research and development expenses	$39	$31	$24

These expenses relate to basic and applied biotechnological research aimed at discovering new biotechnology-based product opportunities that are further developed and commercialized by the Pharmaceuticals, Crop Chemicals and Animal Sciences businesses. The cost of the current biotechnology product development effort directly related to Pharmaceuticals, Crop Chemicals and Animal Sciences activities is included as an expense in those segments. Continuing high levels of research have resulted in increasing expenses over the three-year period, and promising new product leads.

GEOGRAPHIC DATA

	Net Sales to Unaffiliated Customers			Operating Income (Loss)			Total Assets		
	1986	1985	1984	1986	1985	1984	1986	1985	1984
United States	$4,638	$4,794	$4,914	$506	$(784)	$475	$6,608	$7,077	$5,088
Europe-Africa	1,231	1,076	945	117	191	192	1,013	1,019	772
Canada	290	298	278	26	34	25	116	120	105
Latin America	283	220	203	6	(3)	4	243	232	178
Asia-Pacific	437	359	351	16	9	31	385	299	257
Inter-area Eliminations				2	12	2	(338)	(259)	(253)
Corporate Items				(38)	(57)	(52)	242	389	226
Total consolidated	$6,879	$6,747	$6,691	$635	$(598)	$677	$8,269	$8,877	$6,373

The data above are prepared on an "entity basis," which means that sales, operating income and assets of the legal entity are assigned to the geographic area where the entity is located (e.g., a sale from the United States to Latin America is reported as a United States sale). Inter-area sales between Monsanto entities have been excluded from the above table, but are shown in the Segment Information note to the financial statements on page 38.

United States

Sales in 1986 declined slightly from 1985. The comparison is affected by divestitures and by the acquisition of Searle and NutraSweet. Sales of continuing businesses increased 2 percent in 1986. Sales in 1986 were positively

affected by strong Chemicals, NutraSweet and *Roundup* herbicide sales. *Lasso* herbicide, Electronic Materials and Fisher Controls sales were depressed because of extreme weakness in their end-use markets.

The significantly improved profitability of the Chemicals businesses, along with *Roundup* herbicide growth and the inclusion of NutraSweet operating results for the full year, were major contributors to 1986 operating income. Operating income was positively affected by cost reduction measures, lower raw material costs, the implementation of a new pension accounting rule and $155 million in restructuring income, partially offset by the Electronic Materials property write-down. The 1985 operating loss resulted from a $963 million net expense related to the restructuring program.

For 1985, sales declined slightly as sales of the acquired Searle and NutraSweet businesses were offset by the effects of a difficult United States farm economy, a downturn in the semiconductor materials market and stiff competition from ex-U.S. manufacturers. The strength of the U.S. dollar adversely affected prices and volumes of many chemical-based product lines. These factors, coupled with the net expense for the restructuring program, resulted in an operating loss in 1985.

Sales from the United States to ex-U.S. third party customers were $346 million, $379 million and $417 million for 1986-1984, respectively. These sales and the related income are included in the United States geographic data. The impact of product divestitures on 1986 sales more than offset the 1986 benefits of the weaker U.S. dollar's impact on the competitiveness of United States produced materials in the world markets.

Europe-Africa

European-African 1986 sales were $1,231 million, an increase of 14 percent over 1985. The year-to-year comparison is affected by divested product lines and by the inclusion of Searle results for the full year 1986. Europe-Africa benefited in 1986 from sales volume gains in *Roundup* herbicide and certain chemicals. The effect of translating stronger ex-U.S. currency-denominated operating results into U.S. dollars also increased sales and operating income. Operating income in 1986 was affected by cost reduction program expenses in Fisher Controls and the exclusion of operating income of the chemical intermediates plant at Seal Sands, United Kingdom, which was divested in late 1985. Operating income in 1986 also declined due to the inclusion in 1985 of $26 million of net restructuring income. In mid-1986, a new Electronic Materials finishing plant began production in the United Kingdom.

Sales in 1985 increased over 1984 on the strength of Chemicals, Fisher Controls and the inclusion of Searle businesses for the August-December 1985 period following the acquisition. Excluding the impact of the net restructuring income, operating income declined due to lower Chemicals profitability and higher Pharmaceuticals expenses.

Canada

Canadian 1986 sales were $290 million, a 3 percent decline from 1985 due to lower sales of *Avadex* BW herbicide and discontinued product lines, partially offset by NutraSweet sales and the inclusion of Searle sales for the full year 1986. The lower sales of *Avadex* BW and the divested oil and gas business also negatively affected operating income, which declined 24 percent from 1985. Offsetting these factors was the inclusion of Searle operating income for the full year 1986. Canadian operating income does not include the full profitability generated by sales into Canada from other Monsanto locations.

Sales in 1985 increased from 1984 due to higher Fisher Controls sales and the acquired Searle product lines, which more than offset the lower sales of detergent products. Operating income increased due to the addition of profitable Searle product lines and improved Crop Chemicals and Chemicals profitability.

Latin America

Latin American sales in 1986 were $283 million, an increase of 29 percent over 1985. Two thirds of this increase was due to the inclusion of Searle sales for the full year 1986. Improved economic conditions in Brazil and Argentina resulted in sales volume gains for Crop Chemicals, *Lustrex* plastic, rubber chemicals and phosphates. Shipments of *Roundup* herbicide were particularly strong in 1986. Latin American operating income does not include the full profitability generated by sales into Latin America from other Monsanto locations.

Sales in 1985 increased over 1984, as strong sales of plastics and the inclusion of Searle sales offset lower sales of Crop Chemicals. The operating loss in 1985 resulted from restructuring expenses.

Asia-Pacific

Asia-Pacific sales in 1986 were $437 million, an increase of 22 percent over 1985. Operating income increased to $16 million, principally due to the inclusion of Searle operating results for the full year 1986. Sales in 1986 also benefited from higher volume of *Roundup* herbicide and the positive effect of translating ex-U.S. currency-denominated sales into U.S. dollars. While Electronic Materials sales increased in the Japanese market, Monsanto's market share remains well below the potential. New plants were commissioned in Japan and South Korea which will further strengthen Monsanto's position in these critical Asian markets. Asia-Pacific operating income does not include the full profitability generated by sales into Asia-Pacific from other Monsanto locations.

Sales in 1985 increased slightly from 1984 due to the inclusion of Searle sales, but operating income declined 71 percent. Operating income in 1985 was down significantly because of lower Crop Chemicals and Electronic Materials sales and lower Chemicals profitability. Sales and operating income were also adversely affected by the Australian dollar currency translation.

New Product Commercialization Is Top Priority

New product development and commercialization springing from a unique and highly technological base remain a top priority. Monsanto's commitment to developing new products and market opportunities is evidenced by the direction of expenditures in recent years. R&D expenses as a percent of sales reached a record 8 percent in 1986, compared with 7 percent in 1985 and 6 percent in 1984.

Research Focused on Emerging Technologies

Monsanto's research efforts in 1986 continued to focus on emerging technologies — biotechnology, human health care, plant biology and animal nutrition. In 1986, approximately 40 percent of total R&D expenses was directed toward these emerging technologies.

The bovine growth promotant, BST, will probably be the first commercial product resulting from Monsanto's biotechnology research. Other potential products from biotechnology are diverse and include genetically improved crops and second generation tPA (tissue plasminogen activator) for use in treating heart attacks. These products are expected to generate profits in the early 1990s.

Substantial research efforts also continue to support existing areas of strength within Monsanto, including agricultural chemistry, catalysis, polymer science, industrial chemistry, electronic materials, chemical engineering systems and applications research. The NutraSweet Company also conducts research aimed at expanding markets for *NutraSweet* and developing new sweeteners for the future.

1986 R&D By Business Area

Percent of Total R&D Expenses	1%	7%	25%	67%

R&D Expenses

Year	1984	1985	1986
Dollars in Millions	$370	$470	$523

Monsanto/Searle Research Successfully Combined

Significant efforts were devoted in 1986 to optimize human health care research programs, facilities and staff of Monsanto and Searle. These efforts have resulted in the elimination of duplicate research efforts. The acquisition of Searle significantly expanded and complemented Monsanto's research capabilities in biotechnology and human health care, adding experienced professionals and facilities to Monsanto's existing research organization. Searle also brought to Monsanto established organizations skilled at developing and marketing products that flow from the research program. The combination of these strengths, with the Company's strengths in basic and applied research in molecular biology and biotechnology and with Washington University's extensive biomedical discovery capabilities, will further Monsanto's efforts toward its goal of becoming a major worldwide supplier in the pharmaceutical industry. This research focuses on diseases of the cardiovascular and gastrointestinal systems, the central nervous system and the immune system.

QUARTERLY DATA

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net Sales	1986	$1,745	$1,869	$1,695	$1,570	$6,879
	1985	1,624	1,627	1,741	1,755	6,747
Gross Profit	1986	678	778	527	552	2,535
	1985	441	471	470	524	1,906
Income (Loss) Before Extraordinary Gain	1986	118	148	144	23	433
	1985	87	124	31	(370)	(128)
Net Income (Loss)	1986	118	148	144	23	433
	1985	87	124	31	(340)	(98)
Earnings per Share						
Before Extraordinary Gain	1986	1.52	1.90	1.85	0.28	5.55
	1985	1.12	1.60	0.42	(4.81)	(1.67)
After Extraordinary Gain	1986	1.52	1.90	1.85	0.28	5.55
	1985	1.12	1.60	0.42	(4.41)	(1.27)
Dividends per Share	1986	0.625	0.65	0.65	0.65	2.575
	1985	0.575	0.625	0.625	0.625	2.45
Common Stock Price						
1986	**High**	65¼	74⅞	77	81½	81½
	Low	44¾	56¾	63½	67⅞	44¾
1985	High	46¾	49	55⅜	49⅜	55⅜
	Low	41½	42½	44½	40⅝	40⅝

Net income in each quarter of 1986 was higher than the comparable quarter of 1985. Affecting the year-to-year comparison are the elimination of the operating results of certain low-return businesses and assets divested as part of the restructuring program, and the inclusion of Searle and NutraSweet operating results for the full year in 1986. Crop Chemicals sales historically are concentrated in the first half of the year and generally are more profitable than sales of other segments.

The 1986 and 1985 nonrecurring or unusual items increasing (decreasing) earnings per share (after related taxes) were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1986					
Restructuring income — net			$ 1.04	$ 0.21	$ 1.25
Gains from other asset sales			0.75	0.08	0.83
Change in accounting for pension expense		$ 0.16	0.08	0.08	0.32
Electronic Materials property write-down			(0.59)		(0.59)
Change in annual effective tax rate	$(0.04)	(0.08)	(0.06)	0.18	
Other nonrecurring expenses			(0.39)		(0.39)
1985					
Restructuring expense — net				(7.04)	(7.04)
Gain from sale of oil and gas operations				2.61	2.61
Gain from repayment of debt				0.40	0.40

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

(Dollars in millions, except per share)	*At December 31*	
Assets	1986	1985
Current Assets:		
Cash, time deposits and certificates of deposit	$ 206	$ 195
Short-term securities, at cost which approximates market	68	98
Trade receivables, net of allowances of $36 in 1986 and $42 in 1985	1,037	1,218
Miscellaneous receivables and prepaid expenses	221	402
Deferred income tax benefit	207	267
Inventories	1,069	1,097
Total Current Assets	2,808	3,277
Intangible Assets, net of accumulated amortization of $337 in 1986 and $110 in 1985	2,144	2,199
Investments in Affiliates	198	164
Other Assets	206	203
Property, Plant and Equipment, at cost:		
Land	102	101
Buildings	1,002	961
Machinery and equipment	4,964	5,494
Construction-in-progress	258	284
Total Property, Plant and Equipment, at cost	6,326	6,840
Less accumulated depreciation	3,413	3,806
Net Property, Plant and Equipment	2,913	3,034
Total Assets	$8,269	$8,877

Liabilities and Shareowners' Equity		
Current Liabilities:		
Accounts payable	$ 460	$ 522
Wages	133	129
Income and other taxes	157	348
Miscellaneous accruals	577	675
Short-term debt	389	704
Total Current Liabilities	1,716	2,378
Long-Term Debt	1,630	2,087
Deferred Income Taxes	548	584
Other Liabilities	594	421
Shareowners' Equity:		
Common stock — authorized, 200,000,000 shares, par value $2; issued 82,197,097 shares in 1986 and 1985	164	164
Additional contributed capital	861	854
Accumulated currency adjustment	(98)	(191)
Reinvested earnings	3,058	2,824
Treasury stock, at cost (4,538,008 shares in 1986 and 5,444,544 shares in 1985)	(204)	(244)
Total Shareowners' Equity	3,781	3,407
Total Liabilities and Shareowners' Equity	$8,269	$8,877

The above statement should be read in conjunction with pages 33 through 38 of this report.

Significant Progress Made in Strengthening Financial Position

Monsanto met its aggressive 1986 goal of significantly improving its financial position, which in late 1985 had temporarily declined as a result of the additional debt incurred to finance the acquisition of Searle and NutraSweet. This improvement was possible due to the strong 1986 operating cash flow of the Chemicals, Crop Chemicals and NutraSweet businesses and from the significant cash proceeds from the divestitures of product lines and assets.

Debt Reduction Program Accomplished

Monsanto reduced the $2.8 billion debt incurred to finance the August 1985 acquisition of Searle and NutraSweet to $1 billion at year-end 1986. The total debt to total capitalization ratio improved significantly by year-end 1986 to 35 percent, as compared with 45 percent at year-end 1985. Management believes this 1986 year-end ratio is an acceptable level. The Company's long-term debt continues to carry a "single A" rating.

The interest coverage ratio (times interest earned) improved compared with 1985 due to higher profitability levels, partially offset by higher interest expense. That ratio was 3.2 in 1986 (excluding the restructuring income), compared with 2.3 in 1985 (excluding the restructuring expense, the gain from the sale of the oil and gas operations and the extraordinary gain) and 6.9 in 1984. Management expects continued improvement of this ratio over time.

Monsanto has available various short- and medium-term bank credit lines, which are discussed in the "Short-Term Debt and Credit Arrangements" and "Long-Term Debt" notes to financial statements (page 37).

When beneficial, Monsanto utilizes both the United States and ex-U.S. financial markets for its financing needs. To a limited extent, Monsanto has used other forms of financing, principally lease arrangements and joint venture arrangements, when the effective interest cost is attractive or the nature of the capital project requires their use. Monsanto has also made use of pollution control and industrial development bonds to finance qualified projects. Pollution control and industrial development bond obligations were 16 percent of all outstanding long-term debt at year-end 1986. Monsanto's assets generally are free from lien and not used to collateralize debt.

Working Capital Strengthened

Monsanto's current ratio (current assets divided by current liabilities), an indicator of liquidity, was 1.6 at year-end 1986, compared with 1.4 at year-end 1985. Management believes the year-end 1986 ratio is acceptable, but seeks to further improve it to a 2.0 ratio. Working capital increased to $1,092 million at year-end 1986, compared with $899 million in 1985. Working capital benefited from funds provided by operations and divestitures. Trade receivables and inventories declined in 1986, compared with 1985 levels, as increases associated with the growth of continuing businesses were more than offset by the elimination of receivables and inventories associated with discontinued product lines.

Intangible assets declined slightly as amortization in 1986 was partially offset by final appraisal adjustments to the recorded values of Searle and NutraSweet patents and other intangible assets.

Property, plant and equipment declined in 1986, as depreciation and assets associated with facilities sold during the year exceeded capital expenditures.

The weakening of the U.S. dollar, relative to ex-U.S. currencies in which Monsanto conducts business, resulted in the accumulated currency adjustment account decreasing to $98 million at year-end 1986. Currency adjustments are accumulated in this account until the related ex-U.S. investment is sold or liquidated.

As part of its program to manage assets effectively, Monsanto continually evaluates risk retention and insurance levels for product liability, property damage and other potential losses. Monsanto devotes significant effort to maintaining and improving safety and internal control programs, which minimize certain risks. Based on the cost and availability of insurance and the likelihood of a loss occurring, management decides the amount of insurance coverage to purchase from unaffiliated companies and the appropriate amount of risk to retain. To achieve the optimal balance of risk and cost, Monsanto is retaining a greater portion of its total risk than it has in prior years. Management believes that the current levels of risk retention are appropriate and are consistent with other companies in the various industries in which Monsanto operates.

Key Financial Statistics

	1986	1985
Working Capital (Current assets less current liabilities)	$1,092	$899
Current Ratio (Current assets divided by current liabilities)	1.6	1.4
Percent of Total Debt to Total Capitalization*	35%	45%
Percent of Total Debt to Total Shareowners' Equity	53%	82%

**Total capitalization is the sum of short-term debt, long-term debt and shareowners' equity.*

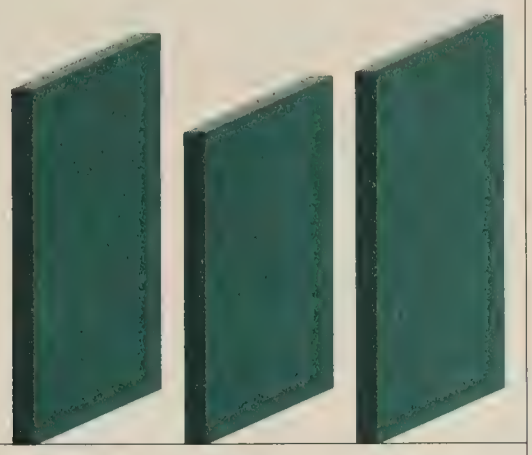
STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

(Dollars in millions)			
Sources (Uses) of Funds	**1986**	**1985**	**1984**
Operations:			
Income (loss) before extraordinary gain	$ 433	$ (128)	$ 439
Charges not using (credits not providing) funds:			
Depreciation and amortization	780	599	503
Deferred income taxes	24	93	103
Other	(12)	(16)	(37)
Gains from asset sales — net (after tax)	(78)	(201)	
Restructuring — net (after tax)	(97)	542	
Funds provided by operations, before changes in working capital and extraordinary gain	1,050	889	1,008
Investment and Other Transactions:			
Extraordinary gain from debt repayment		30	
Working capital changes:			
Trade receivables	181	2	37
Inventories	28	(54)	(61)
Other current assets	181	(258)	(16)
Accounts payable and accrued liabilities	(275)	28	(42)
Short-term debt	33	(108)	24
Total working capital changes	148	(390)	(58)
Foreign currency adjustments on working capital	42	69	(58)
Property, plant and equipment additions	(520)	(645)	(614)
Net proceeds from investment and property disposals (gross proceeds of $344 in 1986 and $1,612 in 1985)	266	1,402	39
Repayment of short-term acquisition debt	(348)	(1,154)	
Acquisitions and investments (other than Searle)	(29)	(78)	(94)
Other	(7)	62	47
	(448)	(704)	(738)
Acquisition of Searle:			
Acquisition financing		2,754	
Searle assets and liabilities acquired:			
Working capital, excluding cash		279	
Intangible assets		(2,166)	
Other noncurrent assets		(1,023)	
Noncurrent liabilities		372	
Searle cash, time deposits and certificates of deposit at acquisition		216	
Financial Transactions:			
Long-term financing	675	415	12
Long-term debt reduction	(1,139)	(723)	(127)
Treasury stock purchases		(91)	(184)
Common stock issuances under employee stock plans	42	20	13
Dividends	(199)	(188)	(182)
	(621)	(567)	(468)
Decrease in Funds	$ (19)	$ (166)	$ (198)
Increase (Decrease) in Elements of Funds:			
Cash, time deposits and certificates of deposit	$ 11	$ 46	$ (15)
Short-term securities	(30)	(212)	(183)
Decrease in Funds	$ (19)	$ (166)	$ (198)

The above statement should be read in conjunction with pages 33 through 38 of this report.

Monsanto's sources and uses of funds for the three-year period 1986-1984 are shown in the Statement of Changes in Consolidated Financial Position on the preceding page.

Funds Provided By Operations



0			
Year	1984	1985	1986
Dollars in Millions	$1,008	$889	$1,050

Operations Provided Substantial Financial Resources

Funds provided by operations were strong in 1986, reaching $1,050 million, due to substantial funds generated by the Chemicals, Crop Chemicals and NutraSweet businesses. The amortization expense related to the acquired Searle and NutraSweet intangible assets significantly reduces operating income, but does not reduce funds provided by operations.

The significant level of 1986 funds provided by operations, supplemented by an additional $344 million of gross proceeds from the sales of product lines and other assets, was used to reduce debt to more acceptable levels and to fund Monsanto's aggressive research programs and growth investments. At year-end 1985, total debt (both short-term and long-term debt) was $2,791 million. The Company surpassed its debt repayment target in 1986, reducing total debt to $2,019 million at year-end 1986 — a significant accomplishment. Also during 1986, the Company refinanced $606 million of commercial paper by issuing medium- and long-term debt in the United States and ex-U.S. financial markets at favorable interest rates.

New Monsanto Is Less Capital Intensive

Expenditures for property, plant and equipment declined to $520 million in 1986. The lower level of capital spending is indicative of the future growth investment strategy, as Monsanto moves away from capital intensive businesses toward research-based businesses. This trend is expected to continue. Prior years' capital expenditures included $85 million in 1985 and $107 million in 1984 for the oil and gas business, which was sold in December 1985. The more significant 1986 expenditures were for the installation of new process technology at NutraSweet's Augusta, Georgia facility and new Electronic Materials plants in Japan and the United Kingdom.

Depreciation and amortization expense increased significantly in 1986 due to a full year's amortization of the Searle and NutraSweet intangible assets and the Electronic Materials property write-down.

Future Operations Expected to Fund Growth

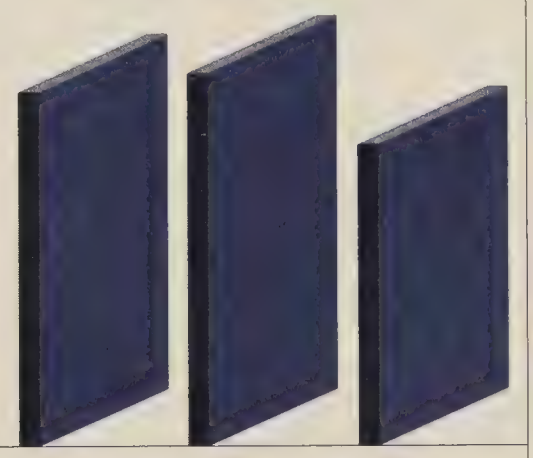
The most important impact of inflation, in the Company's view, is its effect on comparisons of annual investment levels and cash generation. Other than the acquisition of Searle and NutraSweet, Monsanto's operations have generated sufficient cash to fund investments required to maintain the existing earnings base, and a significant portion of the research programs and growth-related investments. In the future, a major portion of Monsanto's growth will continue to be financed with internally generated funds.

Dividends Increase for 14th Consecutive Year

The Company has paid dividends on its common shares without interruption or reduction since 1928 and has increased the dividend in each of the past fourteen years. Dividend payout for 1986 was 19 percent of funds provided by operations and 46 percent of net income. The Company's dividend policy reflects a desired long-term payout percentage based on Monsanto's expectation of future growth and profitability levels. In any individual year, additional consideration is given to expected financial position and results, working and fixed capital needs, scheduled debt repayments and economic conditions, including inflation.

Monsanto's common stock is traded principally on the New York Stock Exchange. The number of shareowners of record as of February 27, 1987, was 68,178 and the high and low common stock prices on that date were $77¾ and $76⅛.

Capital Expenditures



0			
Year	1984	1985	1986
Dollars in Millions	$614	$645	$520

STATEMENT OF CONSOLIDATED SHAREOWNERS' EQUITY

(Dollars in millions, except per share)	1986	1985	1984
Common Stock:			
Balance, January 1	$ 164	$ 164	$ 82
New shares issued (138,117 shares in 1984)			–
Par value of stock issued in two-for-one stock split			82
Balance, December 31	$ 164	$ 164	$ 164
Additional Contributed Capital:			
Balance, January 1	$ 854	$ 855	$ 936
New shares issued			–
Par value of stock issued in two-for-one stock split			(82)
Other	7	(1)	1
Balance, December 31	$ 861	$ 854	$ 855
Accumulated Currency Adjustment:			
Balance, January 1	$ (191)	$ (319)	$ (200)
Translation adjustments	103	131	(121)
Income taxes	(10)	(3)	2
Balance, December 31	$ (98)	$ (191)	$ (319)
Reinvested Earnings:			
Balance, January 1	$2,824	$3,110	$2,853
Net income (loss)	433	(98)	439
Common dividends	(199)	(188)	(182)
Balance, December 31	$3,058	$2,824	$3,110
Common Stock in Treasury:			
Balance, January 1	$ (244)	$ (176)	$ (4)
Shares purchased (2,052,300 and 4,053,300 shares in 1985 and 1984, respectively)		(91)	(184)
Issuances under employee stock plans (906,536; 523,827 and 349,837 shares in 1986-1984, respectively)	40	23	12
Balance, December 31	$ (204)	$ (244)	$ (176)

The above statement should be read in conjunction with pages 33 through 38 of this report.

Key Financial Statistics

		1986	1985	1984
Common Stock Price*	High	$ 81½	$ 55⅜	$ 53⅞
	Low	44¾	40⅝	40⅝
Per Common Share	Dividends	2.575	2.45	2.25
	Shareowners' Equity	48.69	44.38	46.43

**Based on daily reported high and low common stock prices.*

Significant Accounting Policies

The Company's significant accounting policies are italicized in the following Notes to Financial Statements.

Reclassification

In December 1986, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 67, "Income Statement Presentation of Restructuring Charges" (SAB No. 67). SAB No. 67 requires restructuring charges to be included in operating income. In accordance with SAB No. 67, "Restructuring expense (income) — net" in the 1985 Statement of Consolidated Income has been reclassified as a reduction of operating income. In addition, the gain from the sale of the oil and gas operations has been shown separately in the 1985 Statement of Consolidated Income.

Basis of Consolidation

The consolidated financial statements include the Company and its majority-owned subsidiaries. Intercompany transactions have been eliminated in consolidation. Companies in which Monsanto has an ownership interest between 20 and 50 percent are included in "Investments in Affiliates" in the Statement of Consolidated Financial Position, and Monsanto's share of these companies' income or loss is included in "Other income — net" in the Statement of Consolidated Income.

Currency Translation

Most of Monsanto's ex-U.S. entities' financial statements are translated into U.S. dollars using current exchange rates. Unrealized currency adjustments in the Statement of Consolidated Financial Position are accumulated in shareowners' equity. The financial statements of ex-U.S. entities that operate in hyperinflationary economies, including Brazil, Mexico and Argentina, are translated at either current or historical exchange rates, as appropriate. These currency adjustments are included in net income.

Major currencies are the U.S. dollar, British pound sterling and Belgian franc. Other important currencies include the German mark, French franc, Canadian dollar, Australian dollar, Japanese yen, Brazilian cruzado and Mexican peso. Currency restrictions are not expected to have a significant effect on Monsanto's cash flow, liquidity or capital resources.

Principal Acquisitions

In August 1985, Monsanto acquired G.D. Searle & Co. for $2,754 million. The pharmaceutical business of Searle and the former health care division of Monsanto operate as G.D. Searle & Co., a Monsanto subsidiary. The low-calorie sweetener business, formerly a part of Searle, operates as another Monsanto subsidiary, The NutraSweet Company. The acquisition was accounted for using the purchase method, and Searle's and NutraSweet's assets and liabilities were recorded at their estimated fair values at the date of acquisition. The $604 million excess of the purchase price over the fair value of the identifiable net assets acquired is being amortized on a straight-line basis over 40 years. Searle's and NutraSweet's results of operations have been included in the Statement of Consolidated Income from August 1985.

The following table presents unaudited, pro forma operating results as if the acquisition of the Searle and NutraSweet businesses and the sales of certain assets (described below) had occurred on January 1, 1985 and 1984.

	1985	1984
Net sales	$7,150	$7,469
Net income (loss)	(136)	331
Earnings per share, after extraordinary gain	(1.77)	4.09

The pro forma operating results include Searle's and NutraSweet's results of operations for the indicated years, less increased amortization of intangible assets, increased interest expense on the acquisition debt, and related income tax effects. In addition, the pro forma results reflect lower interest expense that would have resulted from using the net proceeds from certain sales of assets to reduce debt, as if those transactions had occurred on January 1 of the years presented. Asset sales include the sale of Searle's investment in Pearle Health Services, Inc. and Searle's nonprescription pharmaceuticals business; and Monsanto's oil and gas business, the Seal Sands, United Kingdom plant and certain other assets. The gross sales proceeds from these transactions were $1,612 million. Where determinable, the operating results associated with the above described assets have been eliminated from the pro forma data presented above. Nonrecurring gains and losses from the sales of these assets have been excluded from the pro forma operating results.

The pro forma operating results do not purport to present Monsanto's actual operating results had the acquisition of the Searle and NutraSweet businesses and the other transactions referred to above occurred on January 1 of the years presented, nor to present Monsanto's consolidated operating results for any subsequent period.

Restructuring

In October 1985, the Company's Board of Directors approved a restructuring and reorganization program. The approved actions included the withdrawal from selected low-return businesses and production facilities, the sale of certain assets that no longer had strategic importance and reductions in the number of employees. During the fourth quarter of 1985 the Company provided a $949 million charge to "Restructuring expense (income) — net" in the Statement of Consolidated Income, comprising the following:

Asset write-downs	$ 530
Cost of employee reductions, including a Special Incentive Retirement Program	252
Other costs	273
Gains on sales of assets	(106)
Total	$ 949

As part of the restructuring and reorganization program, several sales of businesses and production facilities subsequently occurred. The gains on asset sales shown above principally were from the sale of the Seal Sands, United Kingdom chemical intermediates plant in the fourth quarter of 1985 at a net after-tax gain of $82 million, or $1.06 per share.

The impact on 1985 net income from the restructuring and reorganization program was $542 million (net of estimated tax benefits of $407 million), or $7.04 per share.

Also in the fourth quarter of 1985, Monsanto sold its oil and gas operations at a net gain of $201 million ($392 million before tax), or $2.61 per share. The gain is shown separately in the Statement of Consolidated Income.

Subsequent to its acquisition by Monsanto, Searle sold its investment in Pearle Health Services, Inc. and its nonprescription pharmaceuticals business in 1985. Because Monsanto recorded the assets of these businesses at their fair values as of the date of acquisition, no gain or loss resulted from these sales.

The 1986 gain included in "Restructuring expense (income) — net" resulted from the sales of product lines that were planned for divestiture under the 1985 restructuring program. The principal sale was those product lines of the Texas City, Texas petrochemical plant that were part of the restructuring program. The impact on 1986 net income from the restructuring gain was $97 million (after related taxes), or $1.25 per share.

A Special Incentive Retirement program was effective in November and December 1985. Of the 3,880 United States employees eligible under the program, 2,358 elected to accept early retirement.

The restructuring program was substantially completed by the end of 1986. Net sales in 1985 of the subsequently divested product lines were $931 million, principally in the Chemicals segment.

Depreciation and Amortization

	1986	1985	1984
Depreciation and depletion	$423	$477	$449
Amortization of intangible assets	218	88	7
Obsolescence	139	34	47
Total	$780	$599	$503

The cost of plant and equipment is depreciated over weighted average periods of 22 years for buildings and 11 years for machinery and equipment, using the straight-line method.

Patents ($1,234 million and $1,219 million at December 31, 1986 and 1985, respectively) are amortized over their legal lives (approximately 8 years in 1986). Other intangible assets ($257 million and $330 million at December 31, 1986 and 1985, respectively) are amortized over their estimated useful lives (approximately 28 years in 1986). Goodwill ($653 million and $650 million at December 31, 1986 and 1985, respectively) is amortized over periods of 5 to 40 years, with a weighted average amortization period of 38 years in 1986.

Obsolescence in 1986 included a $90 million charge ($46 million after tax, or $0.59 per share) to write down property, plant and equipment values of the Electronic Materials segment to amounts expected to be recovered from future cash flows.

Inventory Valuation

Inventories are stated at cost or market, whichever is less. Actual cost is used to value raw materials and supplies; standard cost, which approximates actual cost, is used to value finished goods and goods in process. Standard costs include direct labor, raw material and manufacturing overhead based on practical capacity. The cost of substantially all United States inventories is determined using the last-in, first-out (LIFO) method, generally reflecting the effects of inflation or deflation on cost of goods sold sooner than other inventory cost methods. The cost of other inventories (approximately 34 percent of all inventories) generally is determined using the first-in, first-out (FIFO) method.

The components of inventories were as follows:

	1986	1985
Finished goods	$ 707	$ 792
Goods in process	225	231
Raw materials and supplies	426	482
Inventories, at FIFO cost	1,358	1,505
Excess of FIFO over LIFO cost	(289)	(408)
Inventories, at LIFO cost	$1,069	$1,097

Inventories at FIFO cost approximate current cost.

Income Taxes

The components of income before income taxes were:

		1986	1985	1984
	U.S.	$462	$(590)	$442
	Ex-U.S.	174	292	265
Total		$636	$(298)	$707

The components of income tax expense were:

		1986	1985	1984
Current:	Federal	$ 20	$ 44	$ 72
	State	12	13	21
	Ex-U.S.	88	154	56
		120	211	149
Deferred:	Federal	74	(338)	72
	State	13	(21)	3
	Ex-U.S.	(4)	(22)	44
		83	(381)	119
Total		$203	$(170)	$268

The sources of timing differences in the recognition of revenue and expense for tax and financial statement purposes and the tax effect of each were:

	1986	1985	1984
Depreciation, depletion and obsolescence	$ (61)	$ 70	$ 92
Restructuring program	161	(307)	
Pension expense	(10)	(32)	
Intangible drilling and development costs		(98)	11
Other	(7)	(14)	16
Total	$ 83	$(381)	$119

Factors causing the effective tax rate to differ from the federal statutory rate were:

	1986	1985	1984
Federal statutory rate	46%	(46)%	46%
Higher (lower) ex-U.S. tax rates	1	(12)	(3)
Investment and other tax credits	(4)	(9)	(5)
Capital gains benefits	(8)		
Benefits attributable to:			
Export earnings	(3)	(3)	(2)
Puerto Rico operations	(3)	(2)	
Dividends from ex-U.S. subsidiaries	1	9	–
Reversal of prior years' foreign tax credits		8	
Other	2	(2)	2
Effective income tax rate	32%	(57)%	38%

Investment tax credits are recorded as a reduction of income tax expense in the year they reduce the federal income tax liability. Investment tax credits, net of recapture, for 1986-1984 were $15 million, $10 million and $30 million, respectively.

Income taxes have not been provided on $365 million of undistributed earnings of subsidiaries, either because any taxes on dividends would be offset substantially by foreign tax credits or because Monsanto intends to indefinitely reinvest those earnings.

Earnings per Share

Earnings per share were computed using the weighted average number of common and common equivalent shares outstanding each year (77,957,975; 76,995,625 and 80,909,755 in 1986-1984, respectively). Common share equivalents (616,178; 116,247 and 335,979 in 1986-1984, respectively) consist primarily of common stock issuable upon exercise of outstanding stock options. Earnings per share assuming full dilution were not significantly different from the primary amounts.

Supplemental Data

	1986	1985	1984
Raw material and energy costs	$2,023	$2,557	$2,522
Employee compensation and benefits	1,937	1,886	1,739
Current income and other taxes	356	435	363
Rent expense	99	92	80
Technological expenses:			
Research and development	523	470	370
Engineering, commercial development and patent	73	78	76
Total technological expenses	596	548	446
Interest expense:			
Operations	89	97	117
Searle acquisition	126	95	
Less capitalized interest	(14)	(14)	(17)
Net interest expense	201	178	100
Equity in affiliates' income	12	25	18
Currency gains (losses) including equity in affiliates' currency gains and losses	8	(13)	2

Employee Retirement Benefits

Most Monsanto employees are covered by noncontributory pension plans. Upon retirement, many Monsanto employees also receive other benefits, principally medical and life insurance.

In 1986 Monsanto adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS No. 87). Information for prior years has not been restated.

The components of pension cost for 1986 were as follows:

	1986
United States plans:	
Service cost (for benefits earned during the year)	$ 56
Interest cost on projected benefit obligation	194
Return on plan assets:	
Actual	(458)
Deferred gain	250
Amortization of unrecognized net gain at adoption of SFAS No. 87	(22)
Ex-U.S. plans	13
Total	$ 33

Pension cost for all plans was $85 million in 1985 and $116 million in 1984.

Pension cost is determined based on years of service and compensation levels. For plans that base benefits on final compensation levels, pension cost for 1986 and 1985 was determined using the projected unit credit method (the entry-age normal method was used for Monsanto's principal plans in 1984). Prior service costs and unrecognized gains and losses are amortized over the estimated future service periods of active employees in the respective plan, ranging generally from 14 to 18 years. Pension plans are funded in accordance with Monsanto's long-range projections of the plans' financial condition, considering benefits earned and expected to be earned in the future, anticipated future returns on pension plan assets and income tax and other regulations. Other post-retirement benefits currently are not funded and are expensed as benefits are paid.

In accordance with SFAS No. 87, the $412 million unrecognized net gain (representing the excess of the fair value of plan assets over the projected benefit obligation at the date of adoption) is being amortized over the average expected future service periods of employees. Also in accordance with SFAS No. 87, the fair value of plan assets was used to calculate the assumed return on plan assets for 1986. These two changes from prior practice were the primary cause for the $52 million decrease in pension expense in 1986 as compared to 1985. This lower pension expense principally benefited the Crop Chemicals segment (approximately $7 million) and the Chemicals segment (approximately $25 million). The decrease in pension expense in 1985 as compared with 1984 was due to updating actuarial assumptions and a change in actuarial cost method for one plan, offset in part by the pension expense of Searle, following the acquisition.

The projected benefit obligation was determined generally using assumed discount rates of 8¼-9 percent for 1986 and 1985. The assumed long-term rates of return on plan assets were generally 8½-9 percent for 1986 and 1985. For those plans that pay benefits based on final compensation levels, the actuarial assumptions generally included overall annual rates of salary increase of 5½-6½ percent.

The 1986-1984 expense recorded for other post-retirement benefits was $26 million, $18 million and $18 million, respectively. For some employee savings plans, employee contributions are matched in part by Monsanto. The 1986-1984 expense recorded for such plans was $35 million, $36 million and $33 million, respectively.

The funded status of Monsanto's pension plans at year-end is presented below.

	1986	1985
Actuarial present value of plan benefits:		
Vested	$2,124	$1,994
Nonvested	187	154
Accumulated benefit obligation	2,311	2,148
Effect of projected future salary increases	303	318
Projected benefit obligation	$2,614	$2,466
Plan assets at fair value	$3,014	$2,672
Excess of plan assets over projected benefit obligation	$ 400	
Less:		
Unrecognized net gain at adoption	412	
Unrecognized 1986 net gain	178	
Accrued pension liability	$ 190	

Projected benefit obligations and plan assets included in the above table for the principal United States plans were approximately $2,483 million and $2,776 million, respectively, at December 31, 1986. Plan assets consist principally of common stocks and United States government and corporate obligations.

Short-Term Debt and Credit Arrangements
Short-term debt was:

	1986	1985
Notes payable:		
Banks	$107	$ 130
Commercial paper	14	468
Bank overdrafts	130	81
Current portion of long-term debt	138	25
Total	$389	$ 704
Maximum amount of notes payable and bank overdrafts outstanding at any month-end	$611	$1,962
Average notes payable and bank overdrafts outstanding	372	730
Weighted average interest rate during the year	8½%	9%
Weighted average interest rate at December 31	7½%	9%

Certain ex-U.S. subsidiaries have aggregate short-term loan facilities of $266 million, under which loans totaling $107 million were outstanding at December 31, 1986. Interest on these loans is related to various ex-U.S. bank rates. Monsanto's unused short-term loan facilities were $159 million at December 31, 1986.

Long-Term Debt
Long-term debt (exclusive of current maturities) was:

	1986	1985
Industrial development bond obligations, weighted average interest rate of 7½%, due 1988 to 2021	$ 264	$ 264
Commercial paper expected to be refinanced on a long-term basis, weighted average rate of 8¼%		950
Medium-term notes, weighted average interest rate of 7½%, due 1988 to 1990	131	
9¾% Eurodollar notes due 1991	101	
10⅛% notes due 1992	150	149
9⅜% notes due 1996	150	
9⅛% sinking fund debentures due 1996	43	66
8½% sinking fund debentures due 2000	127	127
8¾% sinking fund debentures due 2008	169	169
11⅜% sinking fund debentures due 2015	225	250
Capitalized lease obligations	16	17
Other	254	95
Total	$1,630	$2,087

Maturities and sinking fund requirements on long-term debt are $138 million, $124 million, $129 million, $40 million and $126 million for 1987-1991, respectively.

During 1986, the Company issued $425 million of long-term debt in the United States and ex-U.S. financial markets, and $250 million of medium-term notes in the United States financial markets. Proceeds from these borrowings were used principally to reduce the Company's commercial paper outstanding.

The $3.0 billion bank credit agreement used to finance the acquisition of Searle has been renegotiated and reduced to a $750 million intermediate-term facility, expiring ratably from 1988 to 1993. All of this facility was unused at December 31, 1986. Interest on amounts borrowed under this agreement is at, or at a margin above, the Citibank, N.A. base interest rate, or at a margin above either the rates paid on certificates of deposit or the London interbank offered rate. The credit agreement may also be used to support the issuance of commercial paper.

Covenants under the bank credit agreement restrict maximum borrowings. It is not anticipated that future borrowing needs will be affected by these restrictions.

In November 1985, the Company repaid $168 million principal amount of debentures and notes prior to their scheduled maturity from 1993 to 2008. Because these debentures and notes were repaid at less than face value, the Company recorded an extraordinary net gain of $30 million ($59 million before tax), or $0.40 per share.

Capital Stock
At December 31, 1986, there were 5,101,603 common shares reserved for employee stock options.

In January 1986, the Company's Board of Directors declared a dividend to shareowners consisting of one Common Stock Purchase Right on each outstanding share of the Company's common stock. A right will also be issued with each share of the Company's common stock that becomes outstanding prior to the time the rights become exercisable or expire. If a person or group acquires beneficial ownership of 20 percent or more, or announces a tender offer that would result in beneficial ownership of 30 percent or more, of the Company's outstanding common stock, the rights become exercisable and each right will entitle its holder to purchase one share of the Company's common stock for $150. If Monsanto is acquired in a business combination transaction, each right will entitle its holder to purchase, for $150, common shares of the acquiring company having a market value of $300. Alternatively, if a 20 percent holder were to acquire Monsanto by means of a reverse merger in which Monsanto and its stock survive or were to engage in certain "self-dealing" transactions, each right not owned by the 20 percent holder would entitle its holder to purchase, for $150, common shares of the Company having a market value of $300. The Company can redeem each right for 5 cents at any time prior to its becoming exercisable. The rights expire in 1996. These rights may cause substantial ownership dilution to a person or group who attempts to acquire the Company without approval of the Company's Board of Directors. The rights should not interfere with a business combination transaction that has been approved by the Board of Directors. As of December 31, 1986, 77,659,089 rights were outstanding.

Stock Option Plans

At December 31, 1986, there were 2,484,167 shares under options outstanding for the Company's 1974 and 1984 Management Incentive Plans and the Searle Monsanto Stock Option Plan (Searle Plan) at prices ranging from $26.16 to $79.31 per share. Options for 1,295,094 shares were exercisable at December 31, 1986. During 1986, 583,650 options were granted and 696,734 options, granted at prices ranging from $26.16 to $57.59 per share, were exercised. Under the 1984 Management Incentive Plan and the Searle Plan, 2,617,436 shares remain available for grant. Grants under the Searle Plan are subject to ratification by the Company's shareowners.

Stock appreciation rights (SARs) are authorized to be granted under both the Company's 1974 and 1984 Plans, including retroactive grants for unexercised options. At December 31, 1986, SARs related to options for 675,691 shares were outstanding; of these, 316,697 were exercisable. During 1986, SARs related to options for 100,300 shares were granted and 176,074 shares were exercised.

Commitments and Contingencies

Commitments in connection with uncompleted additions to property and investments in affiliates were approximately $125 million at December 31, 1986. Monsanto was contingently liable as guarantor of bank loans and for discounted customers' receivables totaling approximately $107 million at December 31, 1986.

Monsanto is a party to a number of lawsuits, which it is vigorously defending, arising in the normal course of business. Certain of these actions seek damages in very large amounts. While the results of litigation cannot be predicted with certainty, management believes, based upon the advice of Company counsel, that the final outcome of such litigation will not have a material adverse effect on Monsanto's consolidated financial position.

Segment Information

Certain operating unit segment data and geographic data for 1986-1984 appear on pages 21 and 24, and are integral parts of the accompanying financial statements. The principal product lines included in each operating unit are shown in the operating unit segment data.

Sales between operating units were not significant. Inter-area sales, which are sales from one Monsanto location to another Monsanto location in a different world area, were made on a market price basis. Net sales in 1985 of product lines divested that were included in the Chemicals segment were $645 million.

Certain corporate expenses, primarily those related to the overall management of Monsanto, were not allocated to the operating units or geographic areas. Corporate assets principally include certain miscellaneous receivables and investments.

Inter-area sales by entities in each geographic area were:

	Inter-area Sales (Between Monsanto Entities)		
	1986	1985	1984
United States	$ 527	$ 529	$ 534
Europe-Africa	82	163	207
Canada	4	5	9
Latin America	5	2	6
Asia-Pacific	26	21	33
Inter-area Eliminations	(644)	(720)	(789)
Total consolidated	$ –	$ –	$ –

Following is a reconciliation of ex-U.S. operating income and total assets to Monsanto's equity in the net income and net assets of consolidated ex-U.S. subsidiaries.

	1986	1985	1984
Operating income	$ 165	$ 231	$ 252
Interest expense	(42)	(26)	(53)
Interest income	40	38	36
Other income — net	(16)	(21)	29
Income taxes	(70)	(70)	(108)
Net income of consolidated ex-U.S. subsidiaries	$ 77	$ 152	$ 156
Total operating assets	$1,757	$1,670	$1,312
Total liabilities	855	847	519
Net assets of consolidated ex-U.S. subsidiaries	$ 902	$ 823	$ 793

(Dollars in millions, except per share)	1986[1]	1985[2]	1984	1983[3]	1982[4]
Operating Results					
Net Sales	$6,879	$6,747	$6,691	$6,299	$6,325
Operating Income (Loss)	635	(598)	677	521	479
Income (Loss) Before Extraordinary Gains	433	(128)	439	369	329
Net Income (Loss)	433	(98)	439	402	352
As a Percent of Net Sales	6%	(1)%	7%	6%	6%
As a Percent of Average Shareowners' Equity	12%	(3)%	12%	11%	10%
As a Percent of Average Capital Employed[5]	9%	—%	10%	10%	9%
Earnings per Share					
Before Extraordinary Gains	$ 5.55	$ (1.67)	$ 5.42	$ 4.48	$ 4.10
Net Income (Loss)	5.55	(1.27)	5.42	4.89	4.39
Year-end Financial Position					
Total Assets	$8,269	$8,877	$6,373	$6,427	$6,077
Working Capital	1,092	899	1,395	1,535	1,503
Property, Plant and Equipment					
Gross	$6,326	$6,840	$6,919	$6,639	$6,530
Net	2,913	3,034	3,374	3,284	3,313
Long-Term Debt	$1,630	$2,087	$ 824	$ 937	$1,003
Shareowners' Equity	3,781	3,407	3,634	3,667	3,490
Current Ratio	1.6	1.4	2.2	2.3	2.6
Percent of Total Debt to Total Capitalization	35%	45%	23%	24%	25%
Other Data					
Property, Plant and Equipment Additions	$ 520	$ 645	$ 614	$ 560	$ 673
Depreciation and Amortization	780	599	503	523	439
Interest Expense	201	178	100	96	82
Research and Development Expenses	523	470	370	290	264
Income Taxes	203	(170)	268	201	172
Stock Price High	$ 81½	$ 55⅜	$ 53⅞	$ 58⅛	$ 44½
Low	44¾	40⅝	40⅝	37⅛	28¼
Price/Earnings Ratio on Year-end Stock Price	14	—	8	11	9
Per Common Share					
Dividends	$ 2.575	$ 2.45	$ 2.25	$ 2.075	$ 1.975
Shareowners' Equity	48.69	44.38	46.43	44.83	42.99
Common Shareowners	70,367	72,081	71,343	69,787	75,943
Common Shares Outstanding (in millions)	78	77	78	82	81
Employees	51,703	56,103	50,754	48,835	52,199

[1]*Net income for 1986 includes net restructuring income of $97 million ($1.25 per share), a write-down for reduced asset values in the electronic-grade silicon wafer business of $46 million ($0.59 per share), and reduced pension expense from adopting the requirements of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," of $25 million ($0.32 per share).*

[2]*Net loss for 1985 includes net restructuring expense of $542 million ($7.04 per share), the gain from the sale of the oil and gas operations of $201 million ($2.61 per share) and an extraordinary gain of $30 million ($0.40 per share) from repayment of debt.*

[3]*Net income for 1983 includes extraordinary tax benefits of $33 million ($0.41 per share) from the utilization of ex-U.S. loss carryforwards.*

[4]*Net income for 1982 includes an extraordinary gain of $23 million ($0.29 per share) from an exchange of debt for common shares.*

[5]*Capital employed is the sum of short-term debt, long-term debt and shareowners' equity. The beginning of the year and the end of the year capital employed are averaged and divided into net income after adding back the after-tax effect of interest costs.*

BOARD OF DIRECTORS

Richard J. Mahoney
St. Louis
Chairman and
Chief Executive Officer
Monsanto Company

Joan T. Bok
Westborough, Massachusetts
Chairman
New England Electric System

Dr. Donald C. Carroll
King of Prussia, Pennsylvania
Chairman
Schulco, Inc.

C. Raymond Dahl
San Francisco
Director

Richard I. Fricke
Montpelier, Vermont
Chairman and
Chief Executive Officer
National Life Insurance
Company

John W. Hanley
Palm City, Florida
Retired Chairman and
Chief Executive Officer
Monsanto Company

Earle H. Harbison, Jr.
St. Louis
President and
Chief Operating Officer
Monsanto Company

Howard M. Love
Pittsburgh
Chairman and
Chief Executive Officer
National Intergroup, Inc.

Dr. Jean Mayer
Medford, Massachusetts
President
Tufts University

Buck Mickel
Greenville, South Carolina
Vice Chairman
Fluor Corporation and
Chairman*
Daniel International
Corporation
(a subsidiary of Fluor
Corporation)

John S. Reed
New York
Chairman
Citicorp and Citibank, N.A.

William D. Ruckelshaus
Seattle
Attorney
Perkins Coie

Dr. John B. Slaughter
College Park, Maryland
Chancellor
University of Maryland
at College Park

Admiral Stansfield Turner
U.S. Navy, Retired
McLean, Virginia
Lecturer and Writer

Margaret Bush Wilson
St. Louis
Attorney
Wilson, Smith and Seymour

Advisory Directors:
Robert L. Berra
Harold J. Corbett
Robert G. Potter
Nicholas L. Reding
Dr. Howard A. Schneiderman
Francis A. Stroble

COMMITTEES OF THE BOARD

Audit Committee
Dr. Jean Mayer, *Chairman*
Joan T. Bok
Buck Mickel
William D. Ruckelshaus
Dr. John B. Slaughter
Margaret Bush Wilson

Corporate Social Responsibility Committee
Admiral Stansfield Turner, *Chairman*
Dr. Jean Mayer
William D. Ruckelshaus
Dr. John B. Slaughter

Executive Committee
John W. Hanley, *Chairman*
Earle H. Harbison, Jr.
Richard J. Mahoney
Margaret Bush Wilson

Executive Compensation and Development Committee
Howard M. Love, *Chairman*
Richard I. Fricke
John W. Hanley
Buck Mickel

Finance Committee
Dr. Donald C. Carroll, *Chairman*
C. Raymond Dahl
John W. Hanley
Richard J. Mahoney
John S. Reed
Margaret Bush Wilson

Nominating Committee
Buck Mickel, *Chairman*
C. Raymond Dahl
Howard M. Love

Pension and Savings Funds Committee
Richard I. Fricke, *Chairman*
Dr. Donald C. Carroll
Earle H. Harbison, Jr.
Admiral Stansfield Turner

OFFICERS

Chairman and Chief Executive Officer
Richard J. Mahoney

President and Chief Operating Officer
Earle H. Harbison, Jr.

Executive Vice President
Nicholas L. Reding

Senior Vice Presidents
Robert L. Berra
Harold J. Corbett
Dr. Howard A. Schneiderman

Senior Vice President and Chief Financial Officer
Francis A. Stroble

Senior Vice President, Secretary and General Counsel
Richard W. Duesenberg

Group Vice Presidents
Thomas L. Gossage
Robert G. Potter

Vice Presidents
Earl N. Brasfield
Leonard A. Cohn
Stewart D. Daniels
Dr. S. Allen Heininger
Martin J. Kallen
Thomas H. Lafferre
Richard A. Overton
James H. Senger
David L. Sliney

Vice President and Controller
Lawrence B. Skatoff

Vice President and Treasurer
B. Clare Harris

**until March 31, 1987; Chairman and Chief Executive Officer, R.S.I. Corporation, effective April 1, 1987*

Monsanto

Monsanto Company
800 N. Lindbergh Boulevard
St. Louis, Missouri 63167

NOTICE OF
ANNUAL MEETING OF STOCKHOLDERS
APRIL 24, 1987

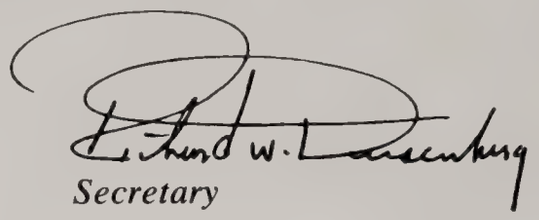
You are invited, as a stockholder of Monsanto Company, to be represented, either in person or by proxy, at the Annual Meeting of Stockholders, to be held in K Building at the General Offices of the Company, 800 North Lindbergh Boulevard, St. Louis County, Missouri, on Friday, April 24, 1987, at 1:45 p.m., for the following purposes:

1. To elect fourteen directors.
2. To consider and act upon a proposal to amend the Certificate of Incorporation of the Company to limit certain personal liabilities of Directors.
3. To consider and act upon a proposal to amend the Indemnification By-Law of the Company and to grant indemnification agreements.
4. To consider and act upon the proposed Searle Monsanto Stock Option Plan of 1986 and proposed conforming amendment to the Monsanto Management Incentive Plan of 1984.
5. To ratify the appointment by the Board of Directors of Deloitte Haskins & Sells as principal independent auditors for the year 1987.
6. To consider a stockholder proposal relating to the Common Stock Purchase Rights Plan of the Company.
7. To consider a stockholder proposal relating to disinvestment in South Africa.
8. To consider a stockholder proposal relating to the termination of sales to certain South African agencies.
9. To transact such other business as may properly come before the meeting.

Stockholders of the Company of record at the close of business on February 23, 1987, are entitled to vote at the Annual Meeting of Stockholders and all adjournments thereof. Since a majority of the outstanding shares of stock of the Company which are entitled to vote at the meeting must be represented to

constitute a quorum, all stockholders are urged either to attend the meeting or to be represented by proxy.

If you do not expect to attend the meeting in person, please mark, sign, date, and return the accompanying proxy in the enclosed business reply envelope. If you later find that you can be present or for any other reason desire to revoke your proxy, you may do so at any time before the voting.



Secretary

St. Louis, Missouri 63167
March 17, 1987

TABLE OF CONTENTS TO THE PROXY STATEMENT

	Page No.
Election of Directors (Proxy Item No. 1)	2
Stock Ownership	6
Board Meetings and Committees	7
Executive Compensation	10
Amendment to Certificate of Incorporation (Proxy Item No. 2)	23
Amendment to Indemnification By-Law and Grant of Indemnification Agreements (Proxy Item No. 3)	25
Adoption of Searle Monsanto Stock Option Plan of 1986 (Proxy Item No. 4)	27
Independent Auditors (Proxy Item No. 5)	31
Stockholder proposal relating to Common Stock Purchase Rights Plan (Proxy Item No. 6)	31
Stockholder proposal relating to disinvestment in South Africa (Proxy Item No. 7)	34
Stockholder proposal relating to sales to certain South African agencies (Proxy Item No. 8)	35
General and Other Matters	38
Appendix A—Current By-Law 55	42
Appendix B—Proposed By-Law 55	43
Appendix C—Proposed Form of Indemnification Agreement	44
Appendix D—Searle Monsanto Stock Option Plan of 1986	54

Monsanto Company
800 N. Lindbergh Boulevard
St. Louis, Missouri 63167

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Monsanto Company of proxies to be voted at the Annual Meeting of Stockholders on April 24, 1987, and at all adjournments thereof. Only stockholders of record at the close of business on February 23, 1987, will be eligible to vote at the meeting. Except for shares owned by the Company, each share of Common Stock, $2 par value, outstanding on such record date will be entitled to one vote. As of February 23, 1987, 77,891,918 shares of such Common Stock were outstanding and entitled to vote. The proxy of a stockholder who is a participant in the Company's Dividend Reinvestment Plan will also serve as an instruction to the trustee under this Plan to vote the shares held for the account of the participant in the same way as the shares represented by such proxy are voted. If a stockholder's proxy is not received, the shares held for his account in the Dividend Reinvestment Plan will not be voted. This Proxy Statement and the accompanying form of proxy were first forwarded to stockholders on March 17, 1987.

Unless you indicate to the contrary, the persons named in the accompanying proxy will vote *for* (1) the election, as directors, of the nominees named below; (2) the amendment to the Certificate of Incorporation of the Company to limit certain personal liabilities of directors; (3) the amendment to the Indemnification By-Law of the Company and the grant of indemnification agreements; (4) the proposed Searle Monsanto Stock Option Plan of 1986 and proposed conforming amendment to the Monsanto Management Incentive Plan of 1984; and (5) the ratification of the appointment by the Board of Directors of Deloitte Haskins & Sells as principal independent auditors for the year 1987; and *against* (6) the stockholder proposal relating to the Common Stock Purchase Rights Plan of the Company; (7) the stockholder proposal relating to disinvestment in South Africa; and (8) the stockholder proposal relating to the termination of sales to certain South African agencies.

Election of Directors (Proxy Item No. 1)

It is intended to elect a Board of fourteen directors, each to hold office until his or her successor is elected and has qualified or until his or her earlier death, resignation or removal. All nominees are now directors of the Company, and all, except Joan T. Bok, were elected by the stockholders at their last Annual Meeting. Margaret Bush Wilson, a non-employee director of the Company for more than 10 years, having reached her 68th birthday during this past year, will not be standing for reelection in accordance with the Company's director tenure policy.

Richard J. Mahoney

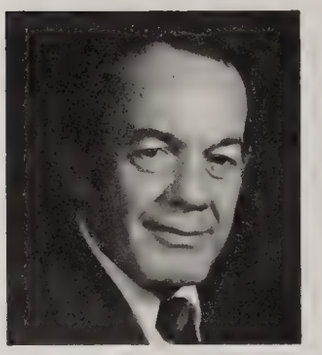
Principal Occupation: Chairman and Chief Executive Officer, Monsanto Company
First Became Director: 1979
Age: 53

President and Chief Operating Officer, 1981; President and Chief Executive Officer, 1983; Chairman and Chief Executive Officer, 1986. Director: Centerre Bancorporation; Metropolitan Life Insurance Company. Trustee, Washington University. Member, The Business Council.

Joan T. Bok

Principal Occupation: Chairman, New England Electric System
Nominated to be Director: 1987
Age: 57

Vice Chairman of New England Electric System, 1979; Chairman, 1984. Director: New England Electric System and its subsidiaries Massachusetts Electric Company, Narragansett Electric Company and New England Power Company; Bank of New England; Dennison Manufacturing Company; Norton Company; The Stop & Shop Companies.



Donald C. Carroll

Principal Occupation: Chairman, Schulco, Inc.
First Became Director: 1975
Age: 56

Professor of Management, University of Pennsylvania, 1972-1985; Dean of The Wharton School, University of Pennsylvania, 1972-1983; Chairman, TMI Systems Corporation, 1969-1982; President, AGT Computer Products, during 1983; Chairman and Treasurer, Immunicon Corp., 1984-1985; Senior Advisor to Chairman and President, SEI Corporation, 1984-1985; Chairman, CGW Data Services, Inc., 1984-1986. Director: MacAndrews & Forbes Holdings, Inc.; Morse Shoe, Inc.; NRUC Corp.; Revlon Group, Inc.; Schulco, Inc.; SEI Corp.; Vestaur Securities, Inc.

C. R. Dahl

Principal Occupation: Director
First Became Director: 1978
Age: 65

Director: BankAmerica Corp.; Bank of America N.T. & S.A.; Crown Zellerbach Foundation; Psoriasis Research Institute.

Richard I. Fricke

Principal Occupation: Chairman and Chief Executive Officer, National Life Insurance Company
First Became Director: 1975
Age: 65

President and Chief Executive Officer of National Life Insurance Company, 1977; Chairman and Chief Executive Officer, 1985. Director: Administrative Services, Inc.; Bank of Vermont; Equity Services, Inc.; Green Mountain Power Corp.; National Life Insurance Company; National Life Investment Management Company, Inc.; Sentinel Advisors, Inc. Chairman of the Board: Champlain Life Insurance Co.; Sentinel Cash Management Fund, Inc.; Sentinel Group Funds, Inc.; Vermont Life Insurance Co. Fellow, American Bar Foundation.

John W. Hanley

Principal Occupation: Retired Chairman and Chief Executive Officer, Monsanto Company
First Became Director: 1972
Age: 65

Chairman and Chief Executive Officer of Monsanto Company, 1980; Chairman of the Executive Committee, 1983. Director: Citicorp; Citibank, N.A.; The May Department Stores Company; RJR Nabisco; Hanley Hazelden Center. Member, The Business Council.

Earle H. Harbison, Jr.

Principal Occupation: President and Chief Operating Officer
First Became Director: 1986
Age: 58

Executive Vice President and Advisory Director, 1981; Vice Chairman, 1986; President and Chief Operating Officer, 1986. Director: Angelica Corp.; Centerre Trust Company of St. Louis; National Life Insurance Company; KETC (Public Broadcasting Station).

Howard M. Love

Principal Occupation: Chairman and Chief Executive Officer, National Intergroup, Inc.
First Became Director: 1977
Age: 56

Chairman, President and Chief Executive Officer of National Steel Corporation, 1982; Chairman and Chief Executive Officer, 1982; Chairman and Chief Executive Officer, National Intergroup, Inc., 1983; Chairman and Chief Executive Officer, National Intergroup, Inc., and Chairman of the Board of the new National Steel Corporation, a subsidiary of National Intergroup, Inc., 1984. Director: Hamilton Oil Corporation; National Intergroup, Inc.; National Steel Corporation; TW Services, Incorporated. Member, The Business Council.

Jean Mayer

Principal Occupation: President, Tufts University
First Became Director: 1970
Age: 67

President, Tufts University, 1976. Director, National Intergroup, Inc. Trustee, WGBH—Channel 2 (Public Broadcasting System). Fellow, American Academy of Arts and Sciences. Foreign Member, French Academy of Sciences.

Buck Mickel

Principal Occupation: Vice Chairman, Fluor Corporation and Chairman, Daniel International Corporation, a subsidiary of Fluor Corporation (until March 31, 1987); Chairman and Chief Executive Officer, R.S.I. Corporation (after April 1, 1987)
First Became Director: 1975
Age: 61

Chairman and President, Daniel International Corporation, and Group Vice President, Fluor Corporation, 1980; Chairman and President, Daniel International Corporation, and Chairman, Engineering & Construction Group, Fluor Corporation, 1982; Chairman, Daniel International Corporation and Vice Chairman, Fluor Corporation, 1984; President, Fluor Corporation, and Chairman, Daniel International Corporation, 1984; Vice Chairman, Fluor Corporation, and Chairman, Daniel International Corporation, 1986; Chairman and Chief Executive Officer, R.S.I. Corporation, 1987. Director: The Citizens & Southern Corporation; Duke Power Company; Fluor Corporation; Liberty Corporation; National Intergroup, Inc.; R.S.I. Corporation; J. P. Stevens & Company; Textile Hall Corporation. Director and Vice Chairman: U.S. Shelter Corporation. Member, The Business Council. Life Trustee, Clemson University and Converse College.

John S. Reed

Principal Occupation: Chairman, Citicorp and Citibank, N.A.
First Became Director: 1985
Age: 48

Executive Vice President, Consumer Services Group, Citibank, N.A., 1974; Vice Chairman and Director, Citicorp, 1982; Chairman and Chief Executive Officer, Citicorp and Citibank, N.A., 1984. Director: Citicorp; Citibank, N.A.; Philip Morris Companies, Inc.; United Technologies Incorporated. Member, The Business Council.

William D. Ruckelshaus

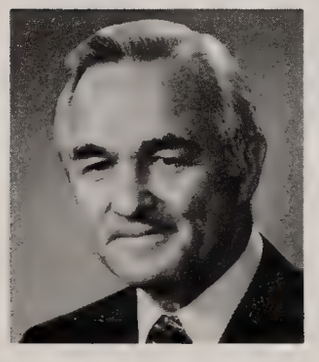
Principal Occupation: Attorney
First Became Director: 1985
Age: 54

Senior Vice President for Law and Corporate Affairs, Weyerhaeuser Company, 1976-83; Administrator, Environmental Protection Agency, 1983-85; Of Counsel, Perkins Coie, 1985. Director: Cummins Engine Co., Inc.; ENESCO Incorporated; Insituform of North America, Inc.; Nordstrom, Inc.; Rainier Bancorporation; U.S. West, Inc.

John B. Slaughter

Principal Occupation: Chancellor, University of Maryland at College Park
First Became Director: 1983
Age: 53

Director, National Science Foundation, 1980; Chancellor, University of Maryland at College Park, 1982. Director: Baltimore Gas and Electric Co.; Martin Marietta Corporation; Medical Mutual Liability Insurance Society of Maryland; Sovran Bank/Maryland. Member: National Academy of Engineering; Institute of Electrical and Electronic Engineers (Fellow).



Stansfield Turner

Principal Occupation: Lecturer and Writer
First Became Director: 1981
Age: 63

Director of Central Intelligence and Central Intelligence Agency, 1977-81. Lecturer and writer on international affairs, military policy and intelligence operations, 1981. Director: National Life Insurance Company.

Stock Ownership

Directors and Officers

The following table sets forth beneficial ownership of shares of Common Stock of the Company as of January 31, 1987 held by (i) each person who is a director or nominee and (ii) all persons as a group who were directors or officers as of that date. None of these persons owns any other class of equity securities of the Company. Except as otherwise noted, each person who is a director, nominee or officer has sole voting and investment power as to his or her shares.

	Shares Beneficially Owned(a)(b)(c)		Shares Beneficially Owned(a)(b)(c)
Joan T. Bok	297	Buck Mickel	8,482
Donald C. Carroll	682	John S. Reed	1,055
C.R. Dahl	1,282	William D. Ruckelshaus	583
Richard I. Fricke	1,576	John B. Slaughter	482
John W. Hanley	35,413 (d)	Stansfield Turner	682
Earle H. Harbison, Jr.	10,447	Margaret Bush Wilson	499
Howard M. Love	1,082 (e)		
Richard J. Mahoney	42,062 (f)	38 Directors and Officers as a Group	190,448 (h)
Jean Mayer	2,586 (g)		

(a) Excludes the following shares covered by stock options exercisable within 60 days of January 31, 1987: Mr. Hanley, 45,000; Mr. Harbison, 14,200; Mr. Mahoney, 36,999; and directors and officers as a group, 235,124.

(b) Includes 3,918 shares for Mr. Harbison, 32,938 shares for Mr. Mahoney and 72,501 shares for directors and officers as a group, all held under either the Company's incentive plan or the Payroll Related Employee Stock Ownership Plan as described on pages 11-13 and 17-18, respectively. With respect to such shares, employee directors and officers have sole voting power and no current investment power.

(c) Includes 297 shares for Mrs. Bok, 584 shares for Mr. Hanley, 386 shares for Dr. Mayer, 555 shares for Mr. Reed, 483 shares for Mr. Ruckelshaus, 290 shares for Mrs. Wilson and 482 shares for each other non-employee director, all received as a portion of the annual retainer as described on pages 10-11. With respect to such shares, non-employee directors have sole voting power and no current investment power.

(d) Includes 2,630 shares owned by the Hanley Family Foundation.

(e) Includes 600 shares held in trusts, in which Mr. Love has an income interest, as to which he expressly disclaims beneficial ownership.

(f) Includes 2,000 shares owned by Mr. Mahoney's wife in trust.

(g) Includes 200 shares owned by Dr. Mayer's wife in trust as to which Dr. Mayer expressly disclaims beneficial ownership.

(h) Includes 18,128 shares as to which ten directors and officers have shared voting and investment power; 687 shares beneficially owned by members of two officers' households as to which such officers expressly disclaim beneficial ownership; and 125 shares under contract pursuant to the Company's Employee Stock Purchase Plan.

The percentage of shares of outstanding Common Stock beneficially owned by any director or nominee or by all directors and officers as a group does not exceed 1%.

Board Meetings and Committees

The Board of Directors met eleven times during 1986. To assist the Board in carrying out its duties, the Board has established an Executive Committee and six functional committees with responsibilities in specific areas of Board activity. During 1986, all nominees attended 75% or more of the aggregate of the meetings of the Board and of the Board Committees to which they were assigned, except Messrs. Love and Reed, who attended 59% and 64%, respectively, and whose absences were unavoidable. A description of each committee and its membership follows.

Audit Committee

Members: Dr. Mayer, Chairman; Mrs. Bok, Messrs. Mickel and Ruckelshaus, Dr. Slaughter and Mrs. Wilson

The Audit Committee is composed of non-employee directors and met three times in 1986. It reviews and monitors the Company's internal controls, financial reports and accounting practices. The Committee discusses audit and financial reporting matters with representatives of the Company's financial management, its internal auditors and its principal independent auditors. The Audit Committee also recommends to the full Board

the appointment of the Company's principal independent auditors and approves in advance all audit and non-audit services provided by such auditors. The principal independent auditors and internal auditors have full access to meet with the Audit Committee, with or without management representatives present, to discuss the results of their examinations, the adequacy of internal accounting controls and the quality of financial reporting.

Corporate Social Responsibility Committee

Members: Mr. Turner, Chairman; Messrs. Mayer, Ruckelshaus and Slaughter

The Corporate Social Responsibility Committee met five times in 1986. It reviews the Company's social responsibility performance, recommending policies and monitoring communications in that area. The Committee also identifies emerging issues for investigation and policies for consideration.

Executive Committee

Members: Mr. Hanley, Chairman; Messrs. Harbison, Mahoney and Mrs. Wilson

The Executive Committee has the powers of the Board in directing the management of the business and affairs of the Company between meetings of the Board (except for certain matters reserved for the Board). In addition, the Committee has the authority to adopt and approve amendments to certain Company benefit plans within certain cost limitations. Because of the nature of the matters acted upon by the Executive Committee, the Committee meets infrequently. During 1986 all actions were taken by unanimous written consent after the Committee's review of proposals circulated to the members. Actions of the Committee are reported at the Board's next regular meeting.

Executive Compensation and Development Committee

Members: Mr. Love, Chairman; Messrs. Fricke, Hanley and Mickel

The Executive Compensation and Development Committee is composed of non-employee directors and met nine times in 1986. Committee members are not eligible for the grant of stock options and bonuses under the incentive plans of the Company. The Committee recommends to the Board the establishment and modification of executive compensation plans and programs and administers and interprets the Monsanto Management Incentive Plan of 1984, including the making of grants and awards under this Plan to officers and other employees. The Committee also approves incentive plans for certain subsidiaries and divisions, reviews plans for management development and succession,

acts in an advisory capacity to executive management on important personnel matters, and determines the salaries of vice presidents and higher ranking officers of the Company.

Finance Committee

Members: Dr. Carroll, Chairman; Messrs. Dahl, Hanley, Mahoney, Reed and Mrs. Wilson

The Finance Committee met four times in 1986. The Finance Committee reviews and monitors the Company's financial planning and structure so that they will be compatible with its requirements for growth and sound operation. The Committee assists with the domestic financing program of the Company and also reviews the financing plans of Monsanto's ex-U.S. subsidiaries. It makes recommendations to the Board of Directors concerning the increase or retirement of debt, issuance of capital stock, foreign currency management, dividend policy, and commercial and investment banking relationships.

Nominating Committee

Members: Mr. Mickel, Chairman; Messrs. Dahl and Love

The Nominating Committee is composed of non-employee directors and met twice in 1986. At its meeting in January 1987, it approved the slate of director nominees in this Proxy Statement for submission to the Board. In addition,the Committee recommends candidates to the Board in case of retirements or other vacancies. The Committee also develops internal criteria for the selection of non-employee directors and criteria by which an evaluation of all directors is made. In performing its responsibilities, the Committee consults with the Chairman. This Committee will consider stockholder nominations, which should be submitted in writing by year-end to the Company's Secretary, Richard W. Duesenberg.

Pension and Savings Funds Committee

Members: Mr. Fricke, Chairman; Messrs. Carroll, Harbison and Turner

The Pension and Savings Funds Committee met four times in 1986. This Committee's specific responsibilities include the approval of the actuarial assumptions and annual contributions for certain pension plans, the selection of trustees and investment managers for certain pension plans, the Savings and Investment Plan, the Payroll Related Employee Stock Ownership Plan, and the approval of certain pension trust agreements and other funding instruments. Although the professional trustees and investment managers have primary investment responsibility with respect to these funds, the Committee reviews and monitors the investment performance of the trustees and investment managers.

Executive Compensation

Cash Compensation

The following table sets forth the aggregate cash compensation paid, deferred or accrued for 1986 by the Company and its subsidiaries to (i) the five most highly compensated executive officers and (ii) all persons as a group who were executive officers at any time during such year. Incentive plans and the awards thereunder are explained in the text following the table as are the other compensation and retirement programs for directors and executive officers. All amounts reported include compensation only for that portion of the period during which individuals were executive officers.

(A) Name of individual or number of persons in group	(B) Capacities in which served	(C) Cash Compensation(a)
Sheldon G. Gilgore	Chairman, President and Chief Executive Officer, G. D. Searle & Co., a subsidiary of Monsanto Company	$ 320,833 (salary) 170,060 (cash bonus) 490,893
Earle H. Harbison, Jr.	President, Chief Operating Officer and Director	371,250 (salary) 300,048 (cash bonus) 671,298
Richard J. Mahoney	Chairman, Chief Executive Officer and Director	575,000 (salary) 466,724 (cash bonus) 1,041,724
Nicholas L. Reding	Executive Vice President	332,500 (salary) 233,362 (cash bonus) 565,862
Howard A. Schneiderman	Senior Vice President	286,250 (salary) 200,058 (cash bonus) 486,308
29 Executive Officers as a group		6,421,302 (salaries) 2,166,533 (cash bonuses) $8,587,835

(a) Includes amounts paid to executive officers on ex-US assignment for international service premium, tax equalization and foreign cost-of-living allowance. Consistent with applicable Securities and Exchange Commission (SEC) regulations, does not include certain non-cash compensation.

Directors' Fees

Employee directors receive neither retainers nor fees for attendance at Board or Board Committee meetings. Non-employee directors receive an annual retainer of $25,000 ($30,000, effective April 24, 1987) plus $1,000 per Board meeting attended. In addition, the Chairman of the Nominating Committee receives $1,000 per year and all other Board

Committee Chairmen receive $3,000 per year. Committee members, including the Chairmen, receive a fee of $1,000 per meeting attended, except that a director is paid for attendance at only one Committee meeting on the day of a Board meeting. Each non-employee director receives $20,000 of the annual retainer in cash and the $5,000 balance ($10,000, effective April 24, 1987) in Common Stock of the Company. Due to securities and tax law considerations, the shares representing the Common Stock portion of the annual retainer of each non-employee director for a five-year period are transferred to the director at one time at the beginning of the five-year period. These shares are, however, subject to forfeiture to the Company unless "earned-out" by the director through continued service on the Company's Board during the five years. Thus, the forfeiture condition is removed on one-fifth of the shares on the respective dates of the next five Annual Meetings following transfer of the shares if the director is still serving on the Company's Board. None of the shares may be sold by a non-employee director prior to the date of the fifth such Annual Meeting so long as he continues serving on the Company's Board. Directors may defer payment of the cash portion of their fees.

Non-employee directors do not participate in any of the incentive, stock option, pension or benefit plans described on pages 11-22 of this Proxy Statement. The normal retirement date for non-employee directors is the Annual Meeting following their 68th birthday. Non-employee directors who retire with five or more years of service receive an annual retirement benefit for life paid in cash and equal to the annual retainer at the time of retirement. If the director dies within fifteen years of retirement, his designated beneficiary will be entitled to receive the annual benefit for the remainder of the fifteen-year period. Reduced benefits will be paid to a director who ceases for any reason to be a director with less than five years of service (except individuals who were directors at the adoption of this program in 1983 and who retire at their normal retirement date) and to a director who commences his benefits prior to his normal retirement date. The Company purchases Company-owned life insurance contracts on the lives of the non-employee directors; and the cost of this retirement benefit program, including a factor for use of money, should be substantially recoverable through the proceeds of such insurance, depending on realization of the assumptions as to mortality experience, policy dividends, and other factors.

Monsanto Company Plans

Performance Incentive Plan

Pursuant to the Monsanto Management Incentive Plan of 1984 which was approved by stockholders on April 27, 1984 (the 1984 Plan), the Executive Compensation and Development Committee of the Board of Directors established the Performance Incentive Plan. This Plan has cash and restricted stock components and covers Monsanto's key managers (approximately 400 participants in 1986). The Committee determines whether a bonus award will be made for a particular year under the Performance Incentive Plan and the amount of individual awards. The Committee's decisions are typically based on various factors, such as the extent to which predetermined corporate and operating organization goals are achieved, the participant's level of responsibility and an evaluation

of the participant's individual job performance. However, bonus awards and the amounts thereof are at the discretion of the Committee and are also subject to certain conditions, including the payment of dividends on the Company's Common Stock.

Under the Performance Incentive Plan, participants selected by the Committee are awarded cash bonuses and restricted stock in the first quarter of each year in connection with services rendered during the previous year, with such awards paid two-thirds in cash and one-third in restricted shares (or their equivalent in certain foreign countries). U.S. participants may elect to defer payment of all or part of their cash awards. The restricted shares are registered in the name of the participant who has dividend and voting rights, but the shares are not transferable and are forfeitable. These restrictions on transfer will lapse after three years if the average performance of Monsanto's stock price is equal to or greater than the average performance of the Standard & Poor's 400 Industrials Index over that period. If Monsanto's stock price performance does not meet this test at the end of three years, the restrictions on the applicable block of stock remain in effect until the three year stock price performance test is satisfied at the end of a subsequent year. The restricted shares will be forfeited if the participant voluntarily terminates (or is terminated for cause) prior to the lapse of the restrictions. The restrictions will be removed if the participant retires, becomes disabled, dies, is terminated for reasons beyond his control, or in the Committee's discretion. The restrictions will also lapse in the event of a tender or exchange offer, purchase of 25% or more of the Company's shares or a reorganization if the restricted shares were awarded at least one year prior to such event.

Cash awards under the Performance Incentive Plan for the year 1986 are included as "cash bonuses" in Column C in the above table. Restricted shares granted for the year 1986 under this Plan to the persons named in the cash compensation table were as follows: E.H. Harbison, Jr., 1,949; R.J. Mahoney, 3,032; N.L. Reding, 1,516; and H.A. Schneiderman, 1,299. Cash bonuses and restricted shares awarded for the year 1984 to the persons named in the cash compensation table were as follows: E.H. Harbison, Jr., $113,379 and 1,260 shares; R.J. Mahoney, $250,028 and 2,781 shares; N.L. Reding, $106,704 and 1,186 shares; and H.A. Schneiderman, $100,029 and 1,112 shares. No awards were granted to any of the named individuals with respect to 1985 under the Performance Incentive Plan as described above. Cash bonuses and restricted shares awarded to present executive officers as a group for the years 1984, 1985 and 1986 were as follows: $1,441,358 and 16,021 shares; $413,654 and 3,479 shares and $3,141,473 and 20,400 shares, respectively. Cash bonuses and restricted shares awarded to all employees as a group (518, 95 and 404 employees including executive officers) for 1984, 1985 and 1986 were as follows: $7,800,331 and 79,892 shares, $1,731,899 and 12,988 shares and $12,524,339 and 74,719 shares, respectively.

Long-Term Incentive Plan

Pursuant to the Management Incentive Plan of 1974 (the 1974 Plan), a predecessor plan to the 1984 Plan, the Executive Compensation and Development Committee also established a Long-Term Incentive Plan to encourage sustained growth in the Company's earnings. Under this program, units were granted annually through 1983 by the

Committee to senior executives. These units entitled the participant (subject to the terms of his incentive commitment) to a payment after a period of either three or five years for each unit if specified earnings per share or return on capital performance objectives were attained. Since the adoption of the 1984 Plan, such units are no longer granted.

No awards were paid for the 1980-84, 1982-84 and 1983-85 cycles under the Long-Term Incentive Plan. Awards for the 1981-85 cycle were paid in 1986 to the persons named in the cash compensation table as follows: E.H. Harbison, Jr., $61,358; R.J. Mahoney, $127,890; N.L. Reding, $65,054; and H.A. Schneiderman, $64,314. The present executive officers as a group and all employees as a group (75 including executive officers) received awards totalling $846,233 and $2,537,549, respectively, for that period.

Restricted Shares

The Executive Compensation and Development Committee also awarded restricted shares under the 1984 Plan to certain executive officers in 1986. The restricted shares are registered in the name of the participant who has dividend and voting rights, but the shares are not transferable and are forfeitable. The restrictions on transfer will lapse in increments of one-third of the restricted shares upon each of the first three anniversaries of the award, except that the restrictions on shares granted to Mr. Mahoney will lapse in increments of one-third of the restricted shares upon each of the sixth, seventh and eighth anniversaries of the award. The restricted shares will be forfeited if, prior to the lapse of the restrictions, the participant voluntarily terminates or is terminated for cause. The restrictions will be removed if the participant retires at normal retirement age, becomes disabled, dies, is terminated for reasons beyond his control, or in the Committee's discretion. The restrictions will also lapse in the event of a tender or exchange offer, purchase of 25% or more of the Company's shares or a reorganization if the restricted shares were awarded at least one year prior to such event. Restricted shares granted to the persons named in the cash compensation table were as follows: E.H. Harbison, Jr., 2,500; R.J. Mahoney, 30,000; H.A. Schneiderman, 2,000. A total of 43,000 restricted shares were granted to executive officers as a group. In addition, restricted shares were granted to Dr. Gilgore as described on page 21.

During 1986, the Committee also awarded a total of 3,750 restricted shares with varying forfeiture conditions and transferability restrictions to five other employees.

Stock Options and Stock Appreciation Rights

The 1984 Plan authorizes the Executive Compensation and Development Committee to grant options to purchase Common Stock from the Company (at the fair market value of the Common Stock at the time of grant) and stock appreciation rights (SARs) in tandem with these options. The Committee has normally granted options annually to approximately 450 of the Company's key managers with the number of shares optioned based upon the optionee's level of responsibility. Non-qualified stock options granted to executive officers generally have tandem SARs and all SARs are exercisable only to the extent that the related option is exercisable. The optionees may elect to receive part or all

of their option grants as incentive stock options rather than non-qualified stock options. SARs are not currently granted in tandem with incentive stock options. Non-qualified stock options granted prior to 1987 and incentive stock options must be exercised within ten years of the date of the grant. Non-qualified stock options granted after 1986 must be exercised within ten years and thirty days of the date of the grant. All options will expire upon voluntary termination of employment.

During 1986, options and SARs were outstanding under the 1984 Plan and the 1974 Plan. With the adoption of the 1984 Plan, authority to grant options under the 1974 Plan expired. Under the 1984 Plan, as of December 31, 1986, 2,192,586 shares remained available for stock option grants. The table on page 15 sets forth information with respect to all stock options and SARs in tandem with such options granted to and exercised by executive officers for the period 1984 through 1986. In 1984, 1985 and early 1987, the Committee also granted non-qualified stock options carrying dividend equivalents and, in some cases, SARs, to certain employees, including executive officers. The dividend equivalents entitle the optionee to receive the dollar amount of the dividends paid on the number of shares under option during the period the option is held unexercised. Subject to deferral by the optionee, dividend equivalents are payable upon the exercise of the option or when the option expires.

The Committee has provided that stock option grants and tandem SARs without dividend equivalents generally become exercisable in increments of one-third of the optioned shares upon each of the first three anniversaries of the original grant. Stock option grants and tandem SARs carrying dividend equivalents are exercisable upon the fifth anniversary of the date of the original grant provided the optionee is employed by the Company. Termination of employment prior to the fifth anniversary following the grant results in forfeiture of the option, SAR and dividend equivalents except in cases of death, normal retirement or disability in which event the option shall be exercisable as to one-fifth of the optioned shares for each anniversary occurring prior to the termination date. In the event, however, of a tender or exchange offer, purchase of 25% or more of the Company's shares or a reorganization, all options, including options carrying dividend equivalents, which have been outstanding at least one year become exercisable. Except in the case of a reorganization, SARs will also be exercisable for cash during a thirty-day period following such events.

Dividend equivalents accrued under non-qualified options for the persons named in the cash compensation table for the years 1984, 1985 and 1986 were as follows: E.H. Harbison, Jr., $11,500, $49,000 and $51,500; R.J. Mahoney, $28,750, $122,500 and $128,750; N.L. Reding, $11,500, $49,000 and $51,500; and H.A. Schneiderman, $8,625, $36,750 and $38,625, respectively. Amounts accrued for all present executive officers as a group for the years 1984, 1985 and 1986 were $84,813, $377,002 and $444,188, respectively.

	S.G. Gilgore	E.H. Harbison, Jr.	R.J. Mahoney	N.L. Reding	H.A. Schneider-man	All Present Executive Officers as a Group
Options in Tandem with SARs Granted 1984 through 1986 (a)						
Number of Shares (b)	27,000	40,300	89,000	56,200	27,600	494,800
Average per Share Price	$59.313	$ 51.569	$ 49.526	$ 55.678	$ 49.661	$ 52.281
Options not in Tandem with SARs Exercised 1984 through 1986						
Net Value Realized	None	None	None	None	None	$ 225,173
SARs in Tandem with Options Exercised 1984 through 1986						
Net Value Realized	None	$239,828	$677,024	$321,940	$188,126	$3,245,674

(a) The options shown include incentive stock options (which are not in tandem with SARs) for 7,589 shares granted to Mr. Mahoney, 1,685 shares to Dr. Gilgore and 8,400 shares to two other executive officers. Also included are non-qualified options not in tandem with SARs for 18,315 shares granted to Dr. Gilgore and 49,600 shares granted to two other executive officers. Non-qualified options for 172,500 shares for all present executive officers as a group carry dividend equivalents. The options shown include non-qualified options for 7,000 shares granted to Dr. Gilgore under the Searle Monsanto Stock Option Plan of 1986, subject to stockholder ratification as described on pages 27-31 and in Appendix D.

(b) The numbers of options or rights set forth above correspond to the numbers of shares to which they relate.

As a group, employees (including executive officers) were granted options for 1,819,700 shares during the period 1984 through 1986, with an average exercise price of $52.290 per share. The total net value realized by all optionees on options exercised during such period was $21,894,158.

Pension and Other Plans

The Monsanto Company Salaried Employees' Pension Plan covers substantially all salaried employees, including the Company's executive officers. Pension costs are borne solely by the Company and determined annually on an actuarial basis with contributions made accordingly. The pensions payable for individuals hired prior to April 1, 1986 are based on the greater of (i) years of service multiplied by 1.4% of Average Earnings, defined as the greater of (a) average compensation received during the final 36 months of employment or (b) average compensation received during the highest three of the final five calendar years of employment, or (ii) years of service multiplied by 1.5% of Average

Earnings less a 50% Social Security offset. For individuals hired on or after April 1, 1986, the pensions payable under the Pension Plan are based on the greater of (i) years of service multiplied by 1.2% of Average Earnings or (ii) years of service multiplied by 1.5% of Average Earnings less a 50% Social Security offset. Employees become vested after ten years of service, although partial vesting is provided in limited circumstances. Compensation utilized for pension formula purposes includes all remuneration reported in Column C of the cash compensation table. It does not include restricted shares awarded, dividends or dividend equivalents payable under the 1984 Plan or amounts paid under the Company's Long-Term Incentive Plan. Since the Pension Plan is subject to benefit limitations under the Internal Revenue Code (the Code), the Company has established an ERISA Parity Pension Plan which provides for payment from the general assets of the Company of amounts which would have been paid to employees under the pension formula absent the benefit limitations of the Code.

The following table illustrates the estimated annual normal retirement benefits payable under the Pension and Parity Plans based upon the greater of 1.4% of Average Earnings, without reduction for Social Security or other offset amounts, or 1.5% of Average Earnings less a 50% Social Security offset. Such benefit levels assume retirement at age 65, the years of service shown, continued existence of such Plans without substantial change, and payment in the form of a single life annuity. The Plans, however, permit employees whose combined age and years of service total 80 or more to retire at or after age 55 without the actuarial reduction in benefits which would normally apply to early retirement.

Average Earnings	Years of Service			
	10	**20**	**30**	**40**
$300,000	$ 42,000	$ 85,500	$130,500	$175,500
400,000	56,000	115,500	175,500	235,500
500,000	70,500	145,500	220,500	295,500
600,000	85,500	175,500	265,500	355,500
700,000	100,500	205,500	310,500	415,500
800,000	115,500	235,500	355,500	475,500
900,000	130,500	265,500	400,500	535,500

Average Earnings under the pension formula and the respective years of service as of December 31, 1986 for the persons named in the cash compensation table are as follows: E.H. Harbison, Jr., $390,210 (19.2 years); R.J. Mahoney, $667,787 (24.5 years); N.L. Reding, $383,068 (31.3 years) and H.A. Schneiderman, $333,565 (7.3 years).

Mr. Harbison and Dr. Schneiderman, both of whom joined the Company when well into their professional careers, have been provided supplemental retirement benefits which recognize their experience prior to employment by the Company. The Company will provide Mr. Harbison with supplemental retirement benefits equal to 18% of Average Earnings. Dr. Schneiderman will be paid supplemental retirement benefits which, when added to the benefits provided from the qualified pension plan, provide a total retirement income equal to the greater of 30% of Average Earnings or $100,000 per year. The

Company will also provide Dr. Schneiderman with supplemental life insurance coverage upon his retirement.

Most Monsanto Company employees, including executive officers, are eligible to participate in the Company's Savings and Investment Plan (SIP). Participants may elect to make before-tax or after-tax contributions between 1½% to 11½% of their base pay to SIP. Either type of contribution up to 7% of base pay will be considered "Matched Savings." The Company currently contributes an amount equal to 60% of the participant's Matched Savings, subject to certain limitations on contributions imposed by the Code. The Company's contributions are transmitted monthly to the Plan Trustee and are invested in Company Common Stock. Participants' accounts, including Company contributions, become distributable at retirement or termination and, for all employees except officers, distributions of participants' after-tax contributions and matching Company contributions are permitted during employment, subject to certain restrictions, at periodic intervals. Since contributions to SIP are limited by the Code, the Company has also established a SIP Parity Plan which provides on an unfunded basis for deferral of employee and matching Company contributions which would have been made under SIP absent the contribution limitations of the Code. Amounts deferred under the SIP Parity Plan are credited with investment earnings in the same manner as under SIP and are paid together with such earnings from the general assets of the Company at the time of distribution under SIP, unless such payments are deferred. Amounts contributed by the Company under SIP or matching Company contributions reserved under the SIP Parity Plan for the persons named in the cash compensation table for the years 1984, 1985 and 1986, respectively, were as follows: E.H. Harbison, Jr., $11,550, $12,810 and $15,593; R.J. Mahoney, $19,250, $21,000 and $24,150; N.L. Reding, $11,760, $13,020 and $13,965; and H.A. Schneiderman $10,290, $11,148 and $12,023. The amounts contributed or reserved for all present executive officers as a group for such periods were as follows: $170,685, $187,369 and $206,066. Amounts contributed for all participants as a group for such period were as follows: $32,928,325, $34,656,330 and $31,137,225.

Monsanto Company also maintains a Payroll Related Employee Stock Ownership Plan for which most Company employees, including executive officers, are eligible. In connection with this Plan, the Company is allowed an additional federal income tax credit which is allocated to the accounts of eligible participants based on their compensation (up to $100,000) as related to all participants' compensation. Contributions to this Plan are based on 0.5% of each participant's compensation and must be invested in Company Common Stock. Accounts under this Plan are distributable only in specified circumstances, including at the employee's retirement or termination of employment (except that dividends are paid annually). Amounts contributed by the Company under this Plan for each of the persons named in the cash compensation table (other than Dr. Gilgore) for the years 1984, 1985 and 1986, respectively, were as follows: $506, $507 and $507. Amounts contributed for all present executive officers as a group for such years were as follows: $11,140, $11,163 and $11,154, respectively. Amounts contributed for all participants as a group for such years were as follows: $5,812,063, $6,114,451 and $5,049,550, respectively. Amounts shown for 1986 are estimates. The actual amounts will

not be known until the Company completes its federal income tax return later in 1987. Since the federal income tax credits in connection with this Plan will be repealed effective in 1987, no further amounts will be contributed by the Company.

The Board has authorized agreements with the Monsanto Company officers named in the cash compensation table and five other executive officers to make an additional cash payment if, within three years following a change in control of the Company (as defined in those agreements), the executive officer's employment is terminated (other than for cause) or he resigns for good cause such as a change in his responsibilities, compensation or conditions of continued employment. Under these agreements, each of these executive officers will receive an amount up to two times his average annual compensation during the previous five years. The Board has also authorized agreements, to be applicable under the same change in control conditions, with Messrs. Harbison, Mahoney, Reding, and one other executive officer to provide them with supplemental retirement benefits prior to their becoming eligible for unreduced early retirement benefits. These supplementary benefits will restore the difference between the benefits payable under the Pension and Parity Plans at the time of termination or resignation and the unreduced early retirement benefits which the executive officer would normally have earned under these Plans but for the change of control event and resulting termination. Standard Monsanto medical benefits will also be continued up to five years. The supplemental retirement benefit arrangements will terminate upon the respective executive officer's becoming eligible for unreduced early retirement benefits. All benefits under both forms of agreement will be reduced as necessary to be exempt from the excise tax and the non-deductibility provision imposed by the Code on certain change of control payments.

Plans of G. D. Searle & Co. and The NutraSweet Company

Searle and NutraSweet Incentive Plans

G. D. Searle & Co. (Searle) and The NutraSweet Company (NutraSweet), wholly-owned subsidiaries of the Company, maintain various incentive compensation plans for employees of the respective companies and their subsidiaries. The Searle Executive Compensation and Development Committee (Searle ECDC) and the NutraSweet Executive Compensation and Development Committee (NutraSweet ECDC) have established annual cash bonus plans for the companies' key employees (approximately 325 and 90 participants in 1986 for Searle and NutraSweet, respectively) based on various factors, such as the companies' financial results and the participants' individual job performance. Certain participants may elect to defer payment of all or a portion of their cash awards. Under this program, participants selected by the committees are awarded cash bonuses in the first quarter of each year in connection with services rendered during the previous year. Cash awards under this program to executive officers of Monsanto employed by Searle and NutraSweet for the year 1986 are included as "cash bonuses" in Column C in the cash compensation table on page 10. Cash bonuses awarded to all employees of Searle and NutraSweet, respectively, for 1986 were as follows: $4,261,260 and $2,001,500.

Effective as of October 24, 1986, Searle established the Searle Phantom Stock Option Plan of 1986, pursuant to which participants may elect to receive in cash the appreciation in the value of a hypothetical share of Searle stock. Such "shares" represent units of valuation created solely for purposes of measuring the increase over a ten-year period, if any, in the value of Searle. The initial value of Searle was determined at the time of the foregoing grant by the Searle ECDC. At least annually thereafter, the Searle ECDC (or other Searle Board Committee or a committee which may include members of management) shall determine and notify participants of the then current value of each such unit. The committee makes its determination using such factors and methods as it deems appropriate, which may include the use of appraisers, analyses by investment bankers or other independent sources. Options with respect to these units are granted for a ten-year period and become exercisable in one-third increments on each of the first three anniversaries of the option grant date. All employees (including employee directors) of Searle and its subsidiaries are eligible to participate, with actual participation largely dependent upon the level of responsibility of the participant's position. To date, options with respect to an aggregate of 125,550 units were granted to approximately 100 plan participants. Dr. Gilgore has received 21,300 units under this Plan.

In addition, options to purchase Monsanto Common Stock have been granted under the Searle Monsanto Stock Option Plan of 1986 (subject to stockholder ratification) as described on pages 27-31 and in Appendix D.

Searle and NutraSweet Pension and Other Plans

The Searle and NutraSweet Pension Plans cover all U.S. based employees. Pension costs are borne solely by the respective companies and determined annually on an actuarial basis with contributions made accordingly. The pensions payable under the Pension Plans are based on years of service (subject to a cap of 30 years of service) multiplied by 1.8% of compensation (averaged over the highest consecutive five of the last ten calendar years of employment preceding retirement) less 1.67% of estimated Social Security benefits at age 65. Employees are eligible to participate after one year of service and become fully vested after ten years of service. Benefits vest 50% after five years of service and thereafter in annual increments of 10%. Although normal retirement is age 65, reduced benefits are available as early as age 50. Compensation utilized for pension formula purposes includes all remuneration reported in Column C of the cash compensation table.

The following table illustrates the estimated annual normal retirement benefits payable under the Pension Plans based upon the pension formula, with reduction for Social Security benefits. Such benefit levels assume retirement at age 65, the years of service shown, continued existence of such plans without substantial change, and payment in the form of a single life annuity.

Highest Average Annual Five Year Compensation	Years of Service			
	5	10	20	30
$300,000	$26,200	$52,400	$90,000	$90,000
400,000	35,200	70,400	90,000	90,000
500,000	44,200	88,400	90,000	90,000
600,000	45,000	90,000	90,000	90,000
700,000	45,000	90,000	90,000	90,000
800,000	45,000	90,000	90,000	90,000
900,000	45,000	90,000	90,000	90,000

As of December 31, 1986, Dr. Gilgore had not yet completed his one-year eligibility requirement under the pension plan.

Following one year of service, all U.S. employees of Searle and NutraSweet and certain of their subsidiaries are eligible to participate in the company savings plan. Participants may elect to make before-tax contributions of up to 6% of their base pay and after-tax contributions of an additional 10% of their base pay to the plan. The companies make matching contributions equal to 35% and 20% of the first 2% and the next 4% of employee contributions, respectively, subject to certain limitations on contributions imposed by the Internal Revenue Code. The companies have in the past elected and may in the future elect to make additional contributions based on company performance. Contributions are invested among various investment options as directed by the employee and the companies' contributions vest at the rate of 25% per year of service. Withdrawals are subject to certain restrictions. The amount contributed for 1986 for one executive officer of Monsanto employed by NutraSweet was $12,353. Amounts contributed for all participants as a group for 1986 for Searle and NutraSweet, respectively, were $2,753,284 and $1,024,886.

Searle and NutraSweet also maintain certain employee benefit plans for executives. These include the split-dollar life, supplemental medical, executive disability and executive relocation plans. The costs to Searle under these plans for 1986 for Dr. Gilgore were $16,778, $3,055, $4,142 and $303,401, respectively. The costs to NutraSweet for 1986 for one executive officer of Monsanto employed by NutraSweet were $7,874, $3,703, $2,781 and -0-, respectively. Costs paid for all participants under the Searle plans for 1986 were $115,844, $132,163, $13,506 and $3,363,054, respectively, and costs for all participants under the NutraSweet plans were $14,940, $65,096, $2,781 and $294,075, respectively.

Certain Employment Agreements

In connection with the employment of Dr. Sheldon G. Gilgore in February 1986 as the President and Chief Executive Officer of Searle, Searle entered into an employment agreement with Dr. Gilgore. Under the agreement, Dr. Gilgore was guaranteed a bonus of 35% of base pay during his first five years of employment with Searle, which the Executive Compensation and Development Committee of Monsanto determined will be

paid one-third in Monsanto Common Stock. In recognition of the fact that Dr. Gilgore has made an important change at a key point in his career, the agreement also provides that should his employment with Searle be terminated within five years, he will be paid at the rate of $500,000 per year during the unexpired portion of the five-year period, unless such termination is a result of voluntary resignation without company permission, death, misfeasance or conduct detrimental to the interests of Searle.

The Committee approved the award to Dr. Gilgore of Monsanto Common Stock having a value of $150,000 at the time of grant—$50,000 upon employment; $50,000 in December 1986; and $50,000 in December 1987. In addition, the Committee approved the grant of 10,000 shares of restricted Monsanto Common Stock. The shares are registered in the name of Dr. Gilgore, who has dividend and voting rights, but the shares are not transferable and are forfeitable for five years. The shares will be forfeited if, prior to the end of the five-year period, Dr. Gilgore voluntarily terminates without permission or is terminated as a result of misfeasance or conduct detrimental to the interests of Searle. In the event of death or total and permanent disability during the five-year period, the restrictions will be removed as to one-fifth of the shares for each anniversary occurring prior to such date. The restrictions will also lapse in the event of a tender or exchange offer, purchase of 25% or more of the Company's shares or a reorganization if the restricted shares were awarded at least one year prior to such event. Dr. Gilgore was also granted stock options under the 1984 Plan effective upon his employment, which are included in the stock option table on page 15.

Recognizing that Dr. Gilgore has joined Searle late in his professional career, he has been provided with supplemental retirement benefits which recognize his experience prior to employment with Searle. Under the agreement, Dr. Gilgore is to be paid retirement income comparable to what he would have earned if he had remained with his prior employer, currently estimated to be approximately $137,890 per year. A supplemental savings plan has also been provided to Dr. Gilgore to compensate for differences between the Searle savings plan and that of his former employer. The amount reserved by Searle under this plan for 1986 was $13,475.

NutraSweet has entered into a three-year employment agreement with Mr. Robert B. Shapiro, Chairman of the Board and Chief Executive Officer of NutraSweet. Under the agreement, if Mr. Shapiro's employment with NutraSweet is terminated at any time prior to June 30, 1989, he will receive a lump sum payment equal to an annual base pay of $270,000 for the unexpired portion of the three-year period, unless such termination was a result of voluntary resignation without company permission, death, misfeasance or conduct detrimental to the interests of NutraSweet. Mr. Shapiro will also receive a $200,000 retention bonus, unrelated to performance, if he is still employed by NutraSweet at the end of the three-year term. If Mr. Shapiro is terminated prior to the end of the three-year term for any reason other than those stated above, he will be paid the remaining amounts of his guaranteed base pay or $200,000, whichever is greater.

The agreement also provides a long-term incentive plan for Mr. Shapiro with a performance cycle beginning January 1, 1986 and ending June 30, 1989. The maximum incentive payout is $700,000 and is based on Mr. Shapiro's continued employment, NutraSweet's performance, and his success in positioning NutraSweet's business for the future beyond 1990.

Pursuant to the agreement, the Executive Compensation and Development Committee of Monsanto granted Mr. Shapiro a non-qualified stock option to purchase 30,000 shares of Monsanto Common Stock exercisable upon the third anniversary of the grant date, May 23, 1989, provided Mr. Shapiro is employed by NutraSweet. Termination of employment prior to the third anniversary following the grant results in forfeiture of the option, except in cases of death or disability, in which event the option shall be exercisable as to one-third of the optioned shares for each anniversary occurring prior to the termination date. In the event, however, of a tender or exchange offer, purchase of 25% or more of the Company's shares or a reorganization, the option will become fully exercisable if it has been outstanding at least one year. The stock options are reflected in the stock option table on page 15.

The former management of Searle had awarded Mr. Shapiro a severance agreement providing for a change of control payment. In consideration of Mr. Shapiro's waiving his rights under the severance agreement, he will receive a payment of $585,535 in 1988 and a commitment to pay the excise tax, if any, and any additional income taxes resulting from payment of such excise tax.

Fisher Controls International, Inc. Plans

One executive officer of Monsanto participates in the Fisher Controls International, Inc. (Fisher) employee benefit plans, including Fisher's Annual Incentive Plan, Long Term Incentive Plan, Deferred Compensation Plan and Salaried Employee Pension Plan. The Fisher Annual Incentive Plan provides for annual cash bonuses based on Fisher's performance, business unit performance, and individual participant performance. The Long Term Incentive Plan makes cash payments for three-year performance cycles based on Fisher's long-range objectives, including both net income and return on investment goals. Annual and Long Term Incentive Plan awards may be deferred under the Deferred Compensation Plan. Amounts paid under the Annual Incentive Plan to all Fisher employees (an average of 138 per year), including the executive officer, for the years 1984 through 1986 were $1,274,483, $1,419,730 and $105,336, respectively. No amounts have been paid under the Long Term Incentive Plan to date. Fisher's Salaried Employee Pension Plan is a defined benefit retirement plan with pensions paid in accordance with a formula based on final pay and service. Pension amounts will be approximately the same or less than under the Monsanto Salaried Employees' Pension Plan (see table on page 16 above). Fisher employees, including the executive officer, are also eligible to participate in the Monsanto Savings and Investment Plan and the Monsanto Payroll Related Employee Stock Ownership Plan and to receive stock options under the 1984 Plan.

Amendment to Certificate of Incorporation to Limit Certain Personal Liabilities of Directors (Proxy Item No. 2)

Recent developments have significantly increased the liability exposure for directors of publicly held corporations. Simultaneously, there has been a decrease in the availability of insurance to protect against such exposure. The resulting phenomenon, which has been noted in the press and recent studies, is that qualified individuals are ever more reluctant to assume the responsibilities of Board membership because of the risk of substantial personal loss.

Directors are often subject to litigation which may be without merit and costly to defend. In recent years there has been a rapid rise in cases filed against directors, frequently based on no more than newspaper and magazine stories. Monsanto's recent experience is a good case in point. The Company acquired G. D. Searle & Co. in August 1985. Subsequently, three derivative suits were brought against Monsanto's directors for their alleged negligence in failing to ascertain potential liabilities concerning Searle's Cu-7, an intrauterine contraceptive device. Newspaper and magazine reports had wrongly suggested that these cases were a surprise to us. In fact, the Board had exercised extraordinary due diligence in expressly evaluating that product before it determined to proceed with the Searle acquisition, and these suits were totally groundless. Although all three cases were subsequently dismissed, their defense required substantial expenditure of funds by the Company.

Such litigation is indicative of the need for protection in the future. The Company believes that appropriate steps should be taken to protect directors against personal liability exposure and thus to assure the ability to attract and retain top caliber individuals.

In recognition of the need to provide adequate protection to individuals in order to persuade them to serve as directors, the Delaware legislature amended the General Corporation Law to allow Delaware corporations to amend their charters to limit or eliminate directors' monetary liability for certain breaches of fiduciary duty. Since imposing monetary liability on directors for a breach solely of the duty of care has traditionally been rare in American law, this Delaware enabling legislation substantially restores the protection directors have historically been afforded, subject only to the need to acquire stockholder approval of a charter amendment. Numerous Delaware corporations are asking their stockholders to approve such a charter amendment which may relieve directors of certain of the liabilities and costs of litigation referred to above. The Company seeks your support for such an amendment to its charter so that it may continue to attract and retain the best available directors. Specifically, the proposed amendment (the "Amendment") will add a new Article IX to the Certificate of Incorporation and renumber present Articles IX and X as Articles X and XI, respectively. The new Article IX will read as follows:

"ARTICLE IX: Liability of Directors

A director of this Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent

such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law as the same exists or may hereafter be amended. Any repeal or modification of the foregoing provisions of this Article IX shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to or at the time of such repeal or modification."

Effects of Amendment

It is important for you to understand both what the Amendment would and would not do to limit a director's potential liability.

In discharging the responsibility for managing the business and affairs of a corporation, a director is held under Delaware law to the fiduciary duties of care and loyalty to the corporation. Under existing Delaware law, the fiduciary duty of care requires that the Board of Directors exercise an informed business judgment and then act with the requisite care in managing the business and affairs of the Company it serves. Delaware case law holds that liability of a director for breach of the duty of care requires a determination by a court that the director was grossly negligent in the exercise of the director's responsibilities. The duty of loyalty that a director owes to the corporation and its stockholders requires that a director act in good faith and not use the director's corporate position to make a personal gain or profit or for other personal advantage. The Amendment relates only to a director's duty of care and does not relate to the duty of loyalty.

The Amendment applies only to a director acting as a director and does not apply to an officer or to a director who is acting in the capacity of an officer. It does not apply to a director's specific responsibilities under certain laws or regulations, such as federal securities law. Further, directors are not relieved of liabilities to plaintiffs who are not stockholders of the Company. Significantly, the Amendment does not change or eliminate a director's duty of care; it provides only that a director shall not be liable to the Company or its stockholders for monetary damages because of a breach of the duty of care. Directors continue to be subject to equitable remedies, such as actions to enjoin or rescind any transactions involving breach of that duty. Such remedies may not, of course, always be available. Furthermore, the Amendment is subject to certain exceptions, detailed below.

The Amendment has been structured to provide the full protection afforded by the Delaware statute as currently formulated or as it might be revised in the future. Thus, if future changes in the Delaware General Corporation Law permit further limitation of a director's liability, such limitation would automatically become effective under this formulation. Conversely, if future changes in the General Corporation Law permit less limitation of a director's liability, the expanded liability would also automatically become effective. Consistent with the present statute, the Amendment will not affect a director's potential liability exposure for (i) a breach of the duty of loyalty, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, (iii) payment of a dividend or approval of a stock repurchase in violation of Delaware statutory law or (iv) any transaction from which the director derived an improper

personal benefit. In addition, the Amendment will not eliminate liability for any act or omission occurring prior to the effective date of the Amendment. On the other hand, any repeal or modification of the Amendment will not adversely affect any right or protection of a director with respect to an act or omission occurring prior to or at the time of such repeal or modification.

Because the change in Delaware's General Corporation Law is recent, there has been no judicial interpretation of its validity or applicability with respect to a director's liability and therefore the potential outcome of any litigation arising out of interpretations of the change cannot be ascertained. In eliminating monetary liability for certain violations of the duty of care, stockholders will be giving up a potential cause of action for, among other things, grossly negligent business decisions, including those made in the context of acquisitions or mergers, whether Monsanto is the acquiring company or whether it is defending against being acquired. Other than the derivative actions challenging the Searle acquisition, there has been no recent litigation which would have been affected by the Amendment. Had the Amendment been in place, it may have afforded a basis for prompt dismissal of the Searle litigation. In any event, by providing directors with a degree of protection which is presently unavailable to them, the Amendment may discourage the filing of groundless litigation and thereby save substantial costs which would otherwise be incurred in defense.

The Amendment is not being proposed in response to any specific resignation, threat of resignation or refusal to serve by any Board member or potential Board member. The members of the Board will personally benefit from adoption of the Amendment. Nonetheless, for the reasons cited above, your Board considers it to provide appropriate protection to directors and therefore to be in the best interests of stockholders.

The Board of Directors recommends a vote "FOR" the Amendment to the Certificate of Incorporation.

The affirmative vote of the holders of at least a majority of the outstanding Common Stock entitled to vote is required for adoption of the Amendment. Thus, a vote to abstain is substantially the same as a vote against the Amendment.

Amendment to Indemnification By-Law of the Company; and Grant of Indemnification Agreements (Proxy Item No. 3)

In order to further protect directors and to extend added protection to officers, employees and others, subject to stockholder approval, the Board of Directors of the Company has amended the Company's Indemnification By-Law (the "By-Law") and has approved a form of indemnification agreement ("Agreement") to be entered into with directors and officers of the Company. These actions will not affect any presently pending litigation. It is intended that these measures will apply should litigation be brought after stockholder approval concerning actions or omissions prior to such approval. Although stockholder approval is not required for either of these matters, the Board believes it is desirable to submit them to the stockholders for their approval since members of the Board will benefit from the By-Law amendment and the Agreement. If

the proposed By-Law or the Agreement is modified in the future, it is intended that nonsubstantive modifications will come within the stockholder approval sought hereby. It is not anticipated that modifications to the By-Law or the Agreement will be submitted for stockholder approval. The Board has not determined how it will proceed in the event of a negative vote by stockholders concerning the presently proposed By-Law amendment and grant of Agreements.

The text of the current By-Law 55, proposed By-Law 55 and the Agreement are as set out in the Appendices A, B and C to this Proxy Statement. The discussion below summarizes the By-Law amendment and the Agreement and is qualified in its entirety by reference to the By-Law amendment which is set forth as Appendix B and the form of indemnification agreement which is set forth as Appendix C.

By-Law Amendment

The Company's current By-Law 55 provides that the Company shall indemnify directors, officers, employees and agents only as required by law. Otherwise, the By-Law leaves indemnification within the discretion of the Company and therefore does not provide the protection afforded by a provision requiring mandatory indemnification. In contrast, the proposed By-Law amendment provides that the Company shall indemnify affected individuals to the full extent permitted by law as it presently exists or may be amended. In addition, consistent with a recent change in the Delaware statute, the By-Law amendment establishes a policy for mandatory advancement of expenses to indemnitees upon receipt from them of an appropriate undertaking to repay expenses so advanced should it ultimately be determined that the indemnitee is not entitled to indemnification.

The By-Law amendment also allows a claimant to file suit if payment of a claim is untimely and, in the event of such suit, the Company bears the burden of proving that the indemnitee is not entitled to indemnification and must pay full expenses whether the claimant is successful in whole or in part. Further, the By-Law amendment provides that it is not exclusive of any other rights to indemnification or advancement of expenses an individual may have or acquire under statute, charter, by-law, agreement, vote of stockholders or disinterested directors or otherwise, and that any repeal or modification of the By-Law shall not adversely affect any right or protection with respect to any act or omission occurring prior to or at the time of such repeal or modification.

Indemnification Agreements

Consistent with the foregoing measures and with the revisions to the Delaware statute, the Company presently intends to enter into indemnification agreements with its directors and officers. It is possible that it might determine to enter into such arrangements with other individuals in the future. In addition, the form of agreement provided in Appendix C may be altered if circumstances warrant. Any such alterations which are deemed substantive would be approved by the Board.

The Agreement will provide a potential indemnitee with protection which is additional to that provided by the amendments to the Certificate of Incorporation and By-Laws.

Unlike those amendments, an agreement is not subject to unilateral revision or repeal such as might occur, for example, in the event of a change of control of the Company. In addition, indemnification rights and procedures can be set forth in greater detail in an agreement than is practical in a by-law.

The form of indemnification agreement is set forth in Appendix C. The following summarizes the more significant sections in the Agreement.

The Agreement provides for mandatory indemnification and mandatory advancement of expenses to the full extent permitted by law. In a proceeding other than a derivative action, the Agreement provides for indemnification against expenses, judgments, penalties, fines and amounts paid in settlement. In a derivative action, the Agreement provides for payment of expenses only. If there is a finding of non-liability or if the derivative action has been settled, the indemnitee is entitled to expenses. If there is a finding of liability, payment of expenses is only provided pursuant to court determination.

The Agreement provides that, in certain circumstances, an indemnitee must meet specified standards of conduct in order to be entitled to indemnification and sets forth detailed procedures for a determination in these instances. In change of control situations (as defined in the Agreement), such determinations are generally to be made by independent counsel to be selected by the indemnitee. In other situations, the determination will usually be made by a majority of disinterested Board members. In a determination of entitlement to indemnification or advancement of expenses, the Agreement provides for a presumption of entitlement in favor of indemnitees and imposes the burden of proof on the Company to overcome such presumption. Absent a determination of entitlement within 60 days, and subject to specified exceptions, a determination of entitlement shall be deemed to have been made.

In the event that a determination is made not to indemnify, a determination by independent counsel is untimely, or a payment of indemnification or an advancement of expenses is untimely, a claimant may file suit or seek arbitration. In any such action, the Company bears the burden of proof and pays full expenses if the claimant is successful in whole or in part.

The Board of Directors recommends a vote "FOR" the proposed amendment to By-Law 55 and the grant of indemnification agreements.

The affirmative vote of a majority of the votes of the Common Stock of the Company that are cast at the Annual Meeting on this proposal is required for approval of this proposal. Stockholders who vote in favor of adoption of the By-Law amendment and indemnification agreement may be estopped or otherwise prevented from challenging their validity at a later date.

Adoption of Searle Monsanto Stock Option Plan of 1986; Conforming Amendment to Monsanto Management Incentive Plan of 1984 (Proxy Item No. 4)

Searle Monsanto Stock Option Plan of 1986

For many years prior to the acquisition of G. D. Searle & Co. (Searle) by Monsanto in August of 1985, Searle had in effect a stock option plan as part of the compensation

package used to attract and retain management personnel. The stock option plan was terminated following the acquisition.

In order to make Searle's overall compensation program competitive within the pharmaceutical industry, the respective Executive Compensation and Development Committees and Boards of Directors of Monsanto and Searle have recommended and approved, subject to ratification of Monsanto's stockholders, a stock option plan using Monsanto Common Stock. The principal features of the Searle Monsanto Stock Option Plan of 1986 (Searle Plan) are outlined below, subject to the actual provisions of the Plan, which is set forth in full in the Appendix D to this Proxy Statement.

The Searle Plan authorizes the issuance of up to 500,000 shares of Monsanto's Common Stock (Shares) pursuant to stock option grants, subject to adjustments for stock dividends, stock splits, recapitalization and the like. As of February 27, 1987, the fair market value of Monsanto's Common Stock was $76.938.

All salaried employees (including officers and employee directors) of Searle and its subsidiaries are eligible to be selected as participants. Directors who are not employees of Searle or a subsidiary are not eligible to participate. To date, stock options for an aggregate of 76,350 Shares have been granted, subject to Monsanto stockholder ratification, to approximately 100 participants. Of this amount, stock options for 7,000 Shares were granted to Dr. Gilgore. The total number of participants may increase or decrease in the future as the committee administering the Searle Plan deems to be appropriate.

Administration. The Searle Plan will be administered by a committee (Searle Committee). The Searle Committee will be Searle's Executive Compensation and Development Committee (Searle ECDC), such other committee of the Searle Board as may subsequently be appointed by the Board to administer the Plan or a committee (whether or not consisting of Board members) to whom the Searle ECDC or other such Board committee may delegate its powers of administration. The members of the Searle ECDC, which currently administers the Searle Plan, are Messrs. Mahoney, Harbison and Robert L. Berra, Senior Vice President-Administration of Monsanto. The Searle Plan provides that the Searle Committee will have the exclusive right to administer and interpret the Searle Plan, to establish rules and regulations for its administration and to authorize the grant of stock options. The Searle Committee will also determine the number of Shares to be subject to, and the forms, terms, conditions and duration of stock options.

Change of Control. The Searle Plan specifically authorizes the Searle Committee to take such action as it determines to be necessary or advisable, and fair and equitable to participants, with respect to stock options in the event of a merger, consolidation, acquisition, sale or transfer of assets, tender or exchange offer, or other reorganization in which Monsanto will not survive as an independent, publicly owned company. Provisions regarding such situations have been incorporated in grants of stock options under the Searle Plan. These provisions are similar to those included in stock options, stock appreciation rights and bonus commitments under the Monsanto Management Incentive Plan of 1984.

Attributes of Options. Only non-qualified stock options may be granted under the Searle Plan. The Searle Plan does not include provisions for incentive stock options or stock appreciation rights. The option price of the Shares subject to options granted under the Searle Plan must be no less than the fair market value of the Shares at the time of the grant and the options must be exercised within ten years and thirty days from the date of the grant.

The Searle Plan provides that the post-retirement exercise period is three months following termination of employment. The period is extended to twelve months, however, if termination is due to death or permanent disability. The Searle Plan limits stock option grants so that they become exercisable in increments of one-third of the optioned Shares upon each of the first three anniversaries of the original grant.

The Searle ECDC intends to make annual option grants to selected participants with the number of Shares being determined primarily by the level of responsibility of the participant's position. Options for not more than an aggregate of 5% of the maximum number of Shares authorized under the Searle Plan may be granted to any one participant.

Additional Information; Amendments. The Searle Plan does not preclude the establishment of another incentive, stock or bonus plan by Searle, Monsanto or their subsidiaries. Other Searle plans are described on pages 18-20. In addition, if any stock option ceases to be exercisable for any reason, the Shares subject to such option will again be available without being charged against the limit on the number of Shares authorized under the Searle Plan.

The Board of Directors or any authorized Board committee of Searle can amend or modify the Searle Plan, but any of the following amendments or modifications will require the prior approval of Monsanto's stockholders: (a) any change in the total number of Shares for which stock options may be granted, or the percentage thereof which may be granted to any one participant; (b) any change which would limit or restrict the powers of the Searle Committee with respect to the administration of the Searle Plan; and (c) any change in the provisions of Article IV which governs amendments or modifications of the Searle Plan.

Federal Income Tax Treatment. The federal income tax treatment of the above described options under present law will be generally as follows: No taxable income is realized by the participant upon the grant of a non-qualified stock option, and no deduction is available to the company. Upon exercise of the option, the excess of the fair market value of the Shares on the date of exercise over the option price will be taxable to the participant and deductible by the company. The tax basis of Shares acquired will be the fair market value on the date of exercise.

Conforming Amendment to the Monsanto Management Incentive Plan of 1984

The Monsanto Management Incentive Plan of 1984 currently provides, with limited exceptions, that no other incentive plan of the Company or its subsidiaries shall provide for granting of options on stock of the Company. Therefore, to permit the adoption of the

Searle Plan under the terms of the 1984 Plan, the Executive Compensation and Development Committee of Monsanto's Board of Directors has recommended—and the Board has adopted, subject to stockholder approval—an amendment to the 1984 Plan which would permit the granting of stock options on Monsanto Common Stock under the Searle Plan.

The text of Section VII.2 of the 1984 Plan, including the proposed amendment, is set forth in full below, with new language in italics. Copies of the complete amended 1984 Plan* will be provided to stockholders without charge upon request to the Secretary of the Company and will also be available at the Annual Meeting.

> "This Incentive Plan is not intended to and shall not preclude the establishment or operation by the Company or any Subsidiary of (a) any thrift, savings and investment, achievement award, stock purchase, employee recognition or other benefit plan or arrangement for any group of employees, or (b) any other incentive or bonus plan or arrangement for any employees (hereinafter "Other Plan"), and any such Other Plan may be authorized and payments made thereunder independently of this Incentive Plan; provided, however, that (i) no director of the Company and no officer of the Company elected by the Board (other than assistant officers) shall participate in any Other Plan, and (ii) no such Other Plan, *other than a stock option plan for G. D. Searle & Co.*, shall provide for the granting of options or stock appreciation rights to purchase or receive the appreciation on the shares of any class of stock of the Company, or the making of bonus commitments or bonus awards payable in any class of stock of the Company, which in either form or substance are comparable to those authorized under this 1984 Incentive Plan, unless such Other Plan is established or operated in connection with the assumption by the Company or a Subsidiary of the plans, options, stock appreciation rights, bonus commitments or bonus awards of another corporation, or the substitution of an Other Plan or options, stock appreciation rights, bonus commitments or bonus awards under such Other Plan in lieu of the plans, options, stock appreciation rights, bonus commitments or bonus awards of such other corporation, arising out of a merger or consolidation with, or the acquisition of assets or stock of, such other corporation, or other transaction described in Section 425(a) of the Internal Revenue Code of 1954, as amended from time to time, as in effect at the time."

The Board of Directors recommends a vote "FOR" the proposed Searle Monsanto Stock Option Plan of 1986 and conforming amendment to the Monsanto Management Incentive Plan of 1984.

The affirmative vote of a majority of the votes of the Common Stock of the Company that are cast at the Annual Meeting on this proposal is required for approval of this proposal.

---

*The 1984 Plan can be amended by the Board of Directors without stockholder approval except in certain respects which are specified in the Plan. Pursuant to this authority, the Board has made two immaterial amendments to the stock option segment of the 1984 Plan, conforming the Plan to the requirements of the Tax Reform Act of 1986 with respect to stock options.

In the event that the stockholders should not approve this proposal, the Committee will nonetheless retain the authority under the 1984 Plan to grant stock options to employees of Searle and may submit another stock option plan for approval of the stockholders at a later date.

Independent Auditors (Proxy Item No. 5)

The Board of Directors, upon the recommendation of the Audit Committee, has appointed Deloitte Haskins & Sells and its correspondent firms (DH&S) as the principal independent auditors to examine the consolidated financial statements of the Company and its subsidiaries for the year 1987. DH&S has acted in this capacity since 1932, is knowledgeable about the Company's operations and accounting practices, and is well qualified to act in the capacity of auditor.

Although this appointment is not required to be submitted to a vote of the stockholders, the Board continues to believe it appropriate as a matter of policy to request that the stockholders ratify the appointment of DH&S as principal independent auditors. If the stockholders should not ratify, the Audit Committee will investigate the reasons for shareholder rejection and the Board will reconsider the appointment.

A formal statement by representatives of DH&S is not planned for the Annual Meeting. However, as in past years, they are expected to be present at the meeting and available to respond to appropriate questions.

The Board of Directors recommends a vote "FOR" the ratification of the appointment of DH&S as principal independent auditors for the year 1987.

The affirmative vote of a majority of the votes of the Common Stock of the Company that are cast at the Annual Meeting is required for ratification.

Stockholder Proposal (Proxy Item No. 6)

Proposal recommending that the Board of Directors rescind or submit to shareholder vote the Common Stock Purchase Rights Plan

The State of California Public Employees' Retirement System (CalPERS) has given notice of its intention to introduce a resolution at the Annual Meeting. CalPERS has advised that it owns 576,400 shares of the Company's stock and that its official address is P.O. Box 2749, Sacramento, CA 95812. The California State Teachers' Retirement System has notified the Company of its intention to co-sponsor the CalPERS resolution.

To be adopted, this proposal, **which is opposed by the Board of Directors,** would require the affirmative vote of a majority of the votes of the Common Stock of the Company cast at the Annual Meeting on such proposal.

"WHEREAS, on January 24, 1986, the Board of Monsanto Company adopted a 'poison pill' shareholder rights plan without submitting this measure to the shareholders for their consideration;

"WHEREAS this plan provides, in general, that if it is triggered by a hostile tender offer, that the shares of stock in Monsanto Company held by the person making the offer can be greatly diluted both in their net asset value per share and in their voting rights;

"WHEREAS we believe that the terms of the 'poison pill,' which discriminate against hostile tender offerors by treating their stock differently from the stock held by any other shareholder (both in terms of net asset value and voting rights), violate a fundamental principle of corporate law that the shares of each shareholder of the same class shall be treated identically;

"WHEREAS we believe that the ability of management to differentiate among shareholders, if it becomes an accepted part of corporation law, will undermine the public ownership of stock, which is the foundation of the capitalist system as it has been developed in the U.S.;

"WHEREAS we believe that this 'poison pill' plan is contrary to the best long run interests of the shareholders because it will unnecessarily discourage possible tender offers which could be very beneficial to the shareholders and greatly enhance the value of their investment;

"WHEREAS we believe that the primary beneficiary of the 'poison pill' is the management of Monsanto Company, which is entrenched in their positions by their adoption of it, to the detriment of the shareholders;

"WHEREAS studies made by the Securities and Exchange Commission have found that 'poison pill' plans often harm stockholders by reducing the value of their shares;

"WHEREAS we believe that, because of the adverse impact which the 'poison pill' has on their long run interests, the shareholders should have an opportunity to vote on whether Monsanto Company should maintain the 'poison pill' plan, or whether it should be repealed.

"THEREFORE, BE IT RESOLVED, that it is recommended that the Board of Directors of the Company rescind or submit to shareholder vote, at the earliest practicable date, the Common Stock Purchase Rights declared as a dividend on January 24, 1986."

The Board of Directors recommends a vote "AGAINST" the foregoing resolution. This recommendation is based upon both (i) specific defects in the proposal itself and (ii) erroneous assumptions implicit in it.

(i) The proposal seems to be requesting one of two different actions, neither of which is proper and both of which should be rejected.

The first action requested—a rescission of the Company's Common Stock Purchase Rights Plan (the "Plan")—simply cannot be accomplished and would be illegal. The Board issued the Common Stock Purchase Rights (the "Rights") as a dividend. The Company is incorporated in Delaware and Delaware law prohibits rescinding a dividend, such as the Rights dividend, which has been duly declared and issued. Moreover, the issuance of the Rights has created a contractual commitment by the Company to its stockholders. Any attempt to rescind the Rights would be a breach of this commitment

and might potentially render the Company subject to suit. The Board can neither take away what it has already granted and issued nor can it legally abrogate its contractual obligations. Delaware counsel has provided its opinion to this effect.

In addition, it is legally unnecessary and, as a practical matter, inappropriate to submit the Plan to stockholder vote. Under Delaware law, the Board of Directors has the responsibility to manage the business and affairs of the Company. The Delaware Supreme Court has ruled that adoption of a rights plan generally is a valid exercise of a Board of Directors' business judgment and need not be submitted for stockholder approval. In the exercise of its business judgment, your Board approved the Plan to help safeguard the interests of all stockholders.

Submitting matters which properly come within the Board's authority tends to subvert the governance structure of the corporate organization. The demands of corporate dynamics make it impossible to burden both directors and stockholders with unnecessary solicitation of the latter's consent for the discharge of the former's responsibilities. To require two-tier approval of such issues would undermine the efficiencies of the corporate process and would be contrary to the appropriate division of corporate decision making under applicable law.

(ii) Those who have submitted this proposal state that the Plan is contrary to "the best long run interests of the shareholders" and that its "primary beneficiary" is an "entrenched" management. These assumptions simply do not square with the facts. Your Board is comprised of a large majority of independent, "outside" directors. After thoughtful and responsible deliberation, the Board adopted the Plan. It was not adopted in haste nor in the heat of defending a so-called "entrenched" management against an unwanted takeover attempt. Rather, in adopting the Plan, your Board acted to protect the very same long term interests of stockholders which the resolution's proponents purport to espouse.

There is no basis for the proponent's implicit assumption that any and every takeover will benefit stockholders. Takeover attempts are sometimes launched primarily to benefit the raider, not the stockholders of the company to be acquired. Your Board represents and considers the interests of all the Company's stockholders. It is essential that the Board have the opportunity which the Plan provides to deal effectively and responsibly with a takeover situation if it occurs and thus to achieve optimum results for all stockholders. The Plan does not prevent takeovers. The Plan was designed to encourage a raider to negotiate with the Board and thereby enhances the Board's ability to protect and to further the interests of stockholders in the event of a takeover proposal. Moreover, the Plan provides the Board with a measure of flexibility which will allow it to defend against an abusive or inadequate offer and to take appropriate steps to maximize stockholder interests.

We have recently completed a major corporate restructuring and have sharpened our corporate objectives. In so doing, we have taken major strides toward realizing both present and future stockholder values. The Plan is a necessary element for assuring that these values are available to our present stockholder constituency.

Accordingly, we recommend that stockholders vote "AGAINST" this resolution.

Stockholder Proposal (Proxy Item No. 7)

Proposal recommending disinvestment in South Africa

The New York State Comptroller, Edward V. Regan, has given notice of his intention, as sole trustee of the New York State Common Retirement Fund, to introduce a resolution at the Annual Meeting. In support thereof, he has furnished the written statement set forth below. He has advised that the Fund owns 590,000 shares of the Company's stock. The Ministers and Missionaries Benefit Board of the American Baptist Churches, U.S.A., has notified the Company of its intention to co-sponsor this resolution.

To be adopted, this proposal, **which is opposed by the Board of Directors,** would require the affirmative vote of a majority of the votes of the Common Stock of the Company cast at the Annual Meeting on such proposal.

"Whereas, the civil and human rights of the black population in South Africa continue to be denied under apartheid;

"Whereas, numerous U. S. corporations subscribing to the Sullivan Principles provide excellent working environments for their employees and lobby the South African government for the elimination of apartheid, nontheless this abhorrent system persists as the major tenet of that government;

"Whereas, since January 1, 1984 at least 52 American companies have terminated operation in South Africa;

"Whereas, both Reverend Sullivan and Bishop Tutu have called for the withdrawal of U.S. corporate investment if apartheid is not substantially eliminated during 1987;

"Whereas, pension funds, endowment funds and other institutional investors are under legal and social pressure to divest their holdings in companies doing business in South Africa;

"Whereas, the result will be financial harm to the beneficiaries of such funds;

"Whereas, disinvestment—the withdrawal of corporations from South Africa—can result in real pressure for change.

"Now, therefore, be it resolved that shareholders request the Board of Directors to establish the following policy:

"The corporation shall implement a disinvestment program by withdrawal from South Africa and cessation of relationships with it unless by the end of May 1987 the system of apartheid is statutorily dismantled through

a. elimination of social segregation, including the Group Areas Act
b. establishment of equitable national education and health delivery systems
c. elimination of all elements of influx control
d. establishment of freehold rights for all South Africans regardless of race; elimination of residential segregation and removals

e. promotion of franchise rights for all South Africans in an equitable manner

f. elimination of the banning of people and organizations; strengthening the independence of the judicial system; and the unconditional release of political prisoners and detainees and those previously charged with treason."

Supporting Statement of Proponents

"United States corporations should not exist within the framework of apartheid which mandates the denial of basic human and civil rights to the Black majority. The use of violence to quell liberty rather than negotiating peaceful change is contrary to the fundamentals of our democratic society. Although significant strides have been made by U.S. companies toward eliminating apartheid within their South African operations, their efforts to lobby the government of South Africa for statutory dismantling of apartheid have to date only had minimal effect.

"As a pension fund, we do not believe selling shares as a statement of our abhorrence of apartheid will have any effect other than to harm present and future pensioners. On the other hand, most corporations have a very modest presence there and the weak economy and prognosis for future civic and social unrest suggest that disinvestment is a wise business policy.

"It is time for shareholders to voice their opposition to the discriminatory practices of South Africa and for the corporation to make known through disinvestment, that it cannot coexist with a system of slavery.

"Accordingly, we seek the affirmative vote of all shareholders on this resolution."

The Board of Directors recommends a vote "AGAINST" the above resolution for the reasons stated on pages 36 and 37.

Stockholder Proposal (Proxy Item No. 8)

Proposal recommending termination of sales to certain South African agencies

The City of New York Comptroller, Harrison J. Goldin, as a trustee of the New York City Teachers' Retirement System, the New York City Police Pension Fund and the New York City Fire Department Pension Fund has given notice of an intention to introduce a resolution at the Annual Meeting. The Adrian Dominican Sisters and the Marianist Society, Inc. (New York Province) have notified the Company of their intention to co-sponsor this resolution.

To be adopted, this proposal, **which is opposed by the Board of Directors,** would require the affirmative vote of a majority of the votes of the Common Stock of the Company cast at the Annual Meeting on such proposal.

"Whereas, the black majority in South Africa is forcibly victimized by a white minority which comprises less than a fifth of the population; and

"Whereas, South African apartheid is legalized racial discrimination in all realms of life, depriving the black majority of such basic civil rights as the right to vote, the right to assemble and speak freely and the right to equal political participation and economic opportunity; and

"Whereas, in the enforcement of apartheid the government of South Africa continues systematically and violently to repress peaceful demonstrations against that policy through martial law, mass arrests and the use of lethal weapons to impose its will on the black majority; and

"Whereas, the policy and practice of apartheid are repugnant to the moral and political values of democratic and free societies and contravene United States policies designed to promote democratic governments around the globe and respect for human rights; and

"Whereas, Monsanto Company, acting through control of its South African affiliates, provides essential goods to the Electricity Supply Commission, 'ESCOM,' and the South African Coal, Oil and Gas Corporation Limited, 'SASOL,' governmental enterprises engaged in energy production and supply, which tend to make the Republic of South Africa less susceptible to outside pressure for change;

"NOW, THEREFORE, BE IT RESOLVED that the shareholders request that the Board of Directors adopts the following policy: The corporation and any of its subsidiaries or affiliates shall terminate forthwith the sales of any product or equipment to ESCOM and SASOL until the Republic of South Africa commits itself to the termination of apartheid and takes meaningful steps to achieve political and legal equality for its black majority population."

Supporting Statement of Proponents

"American businesses, as virtual extensions abroad of the United States itself, should conduct their foreign operations in an ethical and moral manner. As a supplier of essential material to ESCOM and SASOL this corporation contributes to the perpetuation of apartheid.

"American corporations doing business in South Africa must no longer support energy production systems there."

The Board of Directors recommends a vote "AGAINST" the two preceding resolutions for the following reasons:

The proponents of the foregoing resolutions and the Company share a strong opposition to apartheid in South Africa. The Company's position on this issue is clear, and our active pursuit of apartheid's end speaks for itself.

If Monsanto were to withdraw from involvement in South Africa as proposal number 7 requests, that country's government would no longer have to listen to us as we call for negotiations with acknowledged black leaders about power sharing; for an end to statutory racial discrimination wherever it exists especially in housing, education and

medical care; for full South African citizenship for all the peoples of that country; and for restoration of the rule of law.

Furthermore, a new legal aid bureau for the people of Alexandra township would no longer benefit from Monsanto's on-the-scene support. Schools, clinics, villages, black businesses, and black managers would have to look elsewhere for the aid we are providing in anticipation of a South Africa without apartheid. These and other efforts are undertaken by the Company because of its commitment to the abolition of apartheid.

The Company is also a signatory of the Sullivan Principles, a code of conduct which guides corporate performance with respect to anti-apartheid efforts, educational aid, black managerial advancement, equal employment practices and community development assistance. In 1986, all three Monsanto-related operations in South Africa—Monsanto South Africa, Searle South Africa and Control Specialists—received Category I Sullivan Principles ratings following independent evaluation by A. D. Little, Inc. This accomplishment, shared by only thirty percent of 129 reporting units, is especially notable because achieving these ratings becomes more difficult each year.

We have chosen to remain in South Africa and to oppose apartheid vigorously and directly. We cannot assure the success of our efforts, but we are confident that an active business presence demonstrating our commitment to equality offers the best opportunity for contributing effectively to peaceful change and progress.

Therefore, we recommend that stockholders vote "AGAINST" resolution number 7. For Monsanto to disinvest and abandon its relationships in South Africa would harm, rather than help, the people whom the resolution is intended to benefit.

In addition, we recommend that stockholders vote **"AGAINST"** proposal number 8. This proposal requests adoption of a policy for the termination of sales to two South African agencies—the South African Coal, Oil and Gas Corporation Limited (SASOL) and the Electricity Supply Commission (ESCOM), neither of which is associated with the South African military, police or other agencies which enforce apartheid.

Monsanto makes no sales to SASOL and ESCOM. Control Specialists, a joint venture in which a Monsanto subsidiary, Fisher Controls International, holds a non-controlling fifty percent equity interest, has made sales to SASOL and ESCOM; but in both cases, the sales have been less than $100,000 annually.

In the Company's opinion, the proposal is rendered moot by the pending sale of Fisher's interest in Control Specialists. An agreement to sell Fisher's fifty percent ownership to its joint venture partner (effective October 1, 1986) has been signed and awaits South African governmental approvals. Therefore, it is unnecessary to adopt the policy requested by the proponents.

In any event, the proposal requests the adoption of a policy which the Company cannot implement since neither Monsanto nor Fisher could terminate sales by Control Specialists. Fisher has less than majority representation on that company's board of directors and the company is managed pursuant to contract by Fisher's joint venture partner.

The sale of Fisher's interest in Control Specialists was caused by depressed business conditions in the markets it serves. The sale affects neither the continued operation of the Company's other units in South Africa, nor our commitment to a socially responsible presence that stands against apartheid. The joint venture's long-term social responsibility programs, including assistance to a school, a legal aid clinic, a rural development project, and a clinic, will be maintained by our other operations.

The policy requested by the proponents is unnecessary, and we recommend that stockholders vote "AGAINST" proposal number 8.

More detailed information on the Company's programs in South Africa is provided in a position paper. Copies of that statement will be available at the Annual Meeting and will also be mailed to stockholders upon request.

The addresses of the stockholders who have submitted and co-sponsored the above proposals, and their respective stockholdings, will be furnished upon request made to the Secretary of the Company.

General and Other Matters

For inclusion in the Company's Proxy Statement and form of proxy, any proposals of stockholders intended to be presented at the 1988 Annual Meeting must be received by the Company no later than November 18, 1987.

The Board of Directors knows of no matter, other than those referred to in this Proxy Statement, which will be presented at the meeting. However, if any other matters properly come before the meeting or any of its adjournments, the person or persons voting the proxies will vote in accordance with their best judgment on such matters. Should any nominee for director be unwilling or unable to serve at the time of the meeting, or any adjournments thereof, the persons named in the proxy will vote for the election of such other person for such directorship as the Board of Directors may recommend, unless, prior to the meeting, the Board has eliminated that directorship by reducing the size of the Board. The Board is not aware that any nominee herein will be unwilling or unable to serve as a director.

If a stockholder wishes to give a proxy to someone other than the Board's proxy committee, he or she may strike out the names appearing on the enclosed form of proxy, write in the name of any other person whom the stockholder wishes to represent him or her at the Annual Meeting, sign and send or give the proxy directly to the person whose name has been written in and substituted.

The Company will bear the expense of preparing, printing and mailing this proxy material, as well as the cost of any required solicitation. The Company has engaged Georgeson & Co., a proxy solicitation firm, to assist by mail, telephone, in person or otherwise in the solicitation of proxies. Their fee is expected to be approximately

$18,000. Directors, officers or employees of the Company may also participate in the solicitation, without additional compensation.

You are urged to mark, sign, date and return your proxy promptly. You may revoke your proxy at any time before it is voted; and if you attend the meeting, as we hope you will, you may vote your shares in person.

RICHARD W. DUESENBERG
Secretary

March 17, 1987

THIS PAGE LEFT BLANK INTENTIONALLY

APPENDICES

Current By-Law 55

55. (a) The Company may indemnify, to the full extent permitted by and in accordance with the laws of the State of Delaware as in effect either at the time of the act or acts complained of or at the time of indemnification, and shall so indemnify to the full extent required by and in accordance with such laws, any person (and the heirs and legal representatives of such person) made or threatened to be made a party to any threatened, pending, or completed claim, action, suit, or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a Director, officer, employe or agent of the Company or any constituent corporation absorbed in a consolidation or merger, or serves or served as such with another corporation, or with a partnership, joint venture, trust or other enterprise at the request of the Company or any such constituent corporation.

(b) Unless expressly prohibited by the laws of the State of Delaware, the termination of any claim, action, suit or proceeding (whether brought by or in the right of the Company or such other corporation or otherwise), whether civil, criminal, administrative or investigative, by judgment, order, settlement (whether with or without court approval), conviction or upon a plea of guilty or of nolo contendere, or its equivalent, shall not of itself create a presumption that a director, officer, employe or agent did not meet the standards of conduct required for indemnification under sub-paragraph (a) of this By-Law.

(c) The foregoing authority shall apply whether or not the claim asserted is based on matters which antedate the adoption of this By-Law.

(d) If any word, clause or provision of this By-Law or any award made hereunder shall for any reason be determined to be invalid, the provisions hereof shall not otherwise be affected thereby but shall remain in full force and effect.

Proposed By-Law 55

55. (a) The Company shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any claim, action, suit, or proceeding, whether civil, criminal, administrative or investigative (a "proceeding") by reason of the fact that he, or a person for whom he is the legal representative, is or was a Director, officer, employee or agent of the Company or is or was serving at the request of the Company as a director, officer, employee, fiduciary or agent of another corporation or of a partnership, joint venture, trust, non-profit entity, or other enterprise, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such person. The Company shall indemnify a person in connection with a proceeding initiated by such person or a claim made by such person against the Company only if such proceeding or claim was authorized by the Board of Directors of the Company.

(b) The Company shall pay the expenses incurred in defending any proceeding in advance of its final disposition, *provided, however,* that the payment of expenses incurred by any person covered hereunder in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by or on behalf of the affected person to repay all amounts advanced if it should ultimately be determined that such person is not entitled to be indemnified under this By-Law or otherwise.

(c) If a claim for indemnification or payment of expenses under this By-Law is not paid in full within ninety days, or such other period as might be provided pursuant to contract, after a written claim therefor has been received by the Company, the claimant may file suit to recover the unpaid amount of such claim or may seek whatever other remedy might be provided pursuant to contract. In any such action the Company shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law. If successful in whole or in part, claimant shall be entitled to be paid the expense of prosecuting such claim.

(d) The rights conferred on any person by this By-Law shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, these By-Laws, agreement, vote of stockholders or disinterested Directors or otherwise.

(e) Any repeal or modification of the foregoing provisions of this By-Law 55 shall not adversely affect any right or protection hereunder of any person with respect to any act or omission occurring prior to or at the time of such repeal or modification.

Proposed Form of Indemnification Agreement

This Agreement, made and entered into as of this __ day of _____, 198_ ("Agreement"), by and between _____, a Delaware corporation ("Company"), and _____ ("Indemnitee"):

WHEREAS, highly competent persons are becoming more reluctant to serve publicly-held corporations as directors or in other capacities unless they are provided with adequate protection through insurance and/or adequate indemnification against claims and actions against them arising out of their service to and activities on behalf of such corporations; and

WHEREAS, the current uncertainties relating to indemnification and obtaining adequate insurance have increased the difficulty for publicly-held corporations of attracting and retaining such persons; and

WHEREAS, the Board of Directors of the Company has determined that the continuation of present trends in litigation will make it more difficult to attract and retain such persons and that such situation is detrimental to the best interests of the Company's stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future; and

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified; and

WHEREAS, Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that he be so indemnified;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. *Services by Indemnitee.* Indemnitee agrees to serve as a director, officer, employee, agent or fiduciary of the Company and/or at the request of the Company, as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise (whether conducted for profit or not for profit). Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in any such position.

Section 2. *Indemnification—General.* The Company shall indemnify, and advance Expenses (as hereinafter defined), to Indemnitee as provided in this Agreement and to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may thereafter from time to time permit. The rights of Indemnitee provided under the preceding sentence shall include, but shall not be limited to, the rights set forth in the other Sections of this Agreement.

Section 3. *Proceedings Other Than Proceedings by or in the Right of the Company.* Indemnitee shall be entitled to the rights of indemnification provided in this Section 3 if, by reason of his Corporate Status (as hereinafter defined), he is, or is threatened to be made, a party to any threatened, pending, or completed Proceeding (as hereinafter defined), other than a Proceeding by or in the right of the Company. Pursuant to this Section 3, Indemnitee shall be indemnified against Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal Proceeding, had no reasonable cause to believe his conduct was unlawful.

Section 4. *Proceedings by or in the Right of the Company.* Indemnitee shall be entitled to the rights of indemnification provided in this Section 4 if, by reason of his Corporate Status, he is, or is threatened to be made, a party to any threatened, pending or completed Proceeding brought by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 4, Indemnitee shall be indemnified against Expenses actually and reasonably incurred by him or on his behalf in connection with such Proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company. Notwithstanding the foregoing, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company unless and only to the extent that the Court of Chancery of the State of Delaware, or the court in which such Proceeding shall have been brought or is pending, shall determine.

Section 5. *Indemnification for Expenses of a Party Who is Wholly or Partly Successful.* Without limiting the effect of any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 6. *Indemnification for Expenses of a Witness.* Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding to which he is not a party, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

Section 7. *Advancement of Expenses.* The Company shall advance all reasonable Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding within twenty (20) days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by an undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses.

Section 8. *Procedure for Determination of Entitlement to Indemnification.*

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 8(a) hereof, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in the specific case: (i) if a Change of Control (as hereinafter defined) shall have occurred, by Independent Counsel (as hereinafter defined) in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee (unless Indemnitee shall request that such determination be made by the Board of Directors or the stockholders, in which case by the person or persons or in the manner provided for in clauses (ii) or (iii) of this Section 8(b)); (ii) if a Change of Control shall not have occurred, (A) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (B) if a quorum of the Board of Directors consisting of Disinterested Directors is not obtainable or, even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee or (C) by the stockholders of the Company; or (iii) as provided in Section 9(b) of this Agreement; and, if it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(c) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 8(b) hereof, the Independent Counsel shall be selected as provided in this Section 8(c). If a Change of Control shall not have occurred, the Independent Counsel shall be selected by the Board of Directors, and the Company shall give written notice to Indemnitee advising him of the identity of the Independent Counsel so selected. If a Change of Control shall have occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board of Directors, in which event the preceding sentence shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within seven (7) days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection. Such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 17 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. If such written objection is made, the Independent Counsel so selected may not serve as Independent Counsel unless and until a court has determined that such objection is without merit. If, within twenty (20) days after submission by Indemnitee of a written request for indemnification pursuant to Section 8(a) hereof, no Independent Counsel shall have been selected or, if selected, shall have been objected to, either the Company or Indemnitee may petition the Court of Chancery of the State of Delaware or other court of competent jurisdiction for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the Court or by such other person as the Court shall designate, and the person with respect to whom an objection is so resolved or the person so appointed shall act as Independent Counsel under Section 8(b) hereof. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 8(b) hereof, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 8(c), regardless of the manner in which such Independent Counsel was selected or appointed. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 10(a)(iii) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

Section 9. *Presumptions and Effect of Certain Proceedings.*

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 8(a) of this Agreement, and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption.

(b) If the person, persons or entity empowered or selected under Section 8 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; *provided, however,* that such sixty (60) day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto; and *provided, further,* that the foregoing provisions of this Section 9(b) shall not apply (i) if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 8(b) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination the Board of Directors has resolved to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 8(b) of this Agreement.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee has reasonable cause to believe that his conduct was unlawful.

Section 10. *Remedies of Indemnitee.*

(a) In the event that (i) a determination is made pursuant to Section 8 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 7 of this Agreement, (iii) the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 8(b) of this Agreement and such determination shall not have been made and delivered in a written opinion within ninety (90) days after receipt by the Company of the request for indemnification, or (iv) payment of indemnification is not made pursuant to Section 5 or Section 6 of this Agreement within ten (10) days after receipt by the Company of a written request therefor, or (v) payment of indemnification is not made within ten (10) days after a determination has been made that Indemnitee is

entitled to indemnification or such determination is deemed to have been made pursuant to Sections 8 or 9 of this Agreement, Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of his entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association. Except for a proceeding seeking enforcement of rights under Section 5 hereof, Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within one hundred eighty (180) days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 10(a). The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 8 of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 10 shall be conducted in all respects as a *de novo* trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 10 the Company shall have the burden of proving that Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made or deemed to have been made pursuant to Section 8 or Section 9 of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 10, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 10 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement.

(e) In the event that Indemnitee, pursuant to this Section 10, seeks a judicial adjudication of or an award in arbitration to enforce his rights under, or to recover damages for breach of, this Agreement, if successful in whole or part, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all expenses (of the types described in the definition of Expenses in Section 17 of this Agreement) actually and reasonably incurred by him in such judicial adjudication or arbitration.

Section 11. *Non-Exclusivity; Survival of Rights; Insurance; Subrogation.*

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Certificate of

Incorporation, the By-Laws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or any provision hereof shall be effective as to any Indemnitee with respect to any action taken or omitted by such Indemnitee in his Corporate Status prior to such amendment, alteration or repeal.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, agents or fiduciaries of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 12. *Duration of Agreement.* This Agreement shall continue until and terminate upon the later of: (a) ten (10) years after the date that Indemnitee shall have ceased to serve as a director, officer, employee, agent or fiduciary of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which Indemnitee served at the request of the Company; or (b) the final termination of all pending Proceedings in respect of which Indemnitee is granted rights of indemnification or advancement of expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 10 of this Agreement relating thereto. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and his heirs, executors and administrators.

Section 13. *Severability.* If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 14. *Exception to Right of Indemnification or Advancement of Expenses.* Notwithstanding any other provision of this Agreement, Indemnitee shall not be entitled to indemnification or advancement of Expenses under this Agreement with respect to any Proceeding initiated by him or claim made by him against the Company unless such proceeding or claim was authorized by the Board of Directors.

Section 15. *Identical Counterparts.* This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

Section 16. *Headings.* The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 17. *Definitions.* For purposes of this Agreement:

(a) "Change of Control" means a change in control of the Company occurring after the Effective Date of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934 (the "Act"), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if after the Effective Date (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities without the prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person attaining such percentage interest; (ii) the Company is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iii) during any period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board of Directors (including for this purpose any new director whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors.

(b) "Corporate Status" describes the status of a person who is or was a director, officer, employee, agent or fiduciary of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise (whether conducted for profit or not for profit) which such person is or was serving at the request of the Company.

(c) "Disinterested Director" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(d) "Effective Date" means _____, 198_.

(e) "Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

(f) "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five (5) years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(g) "Proceeding" includes any action, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding, including appeals therefrom, whether civil, criminal, administrative or investigative, except one initiated by an Indemnitee pursuant to Section 10 of this Agreement to enforce his rights under this Agreement.

Section 18. *Modification and Waiver.* No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 19. *Notice by Indemnitee.* Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder.

Section 20. *Notices.* All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to Indemnitee, to:

(b) If to the Company, to:

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

Section 21. *Governing Law*. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware.

Section 22. *Miscellaneous*. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

By _____

COMPANY

By _____

INDEMNITEE

_____

Address: _____

SEARLE MONSANTO STOCK OPTION PLAN OF 1986

Article I. General Provisions

SECTION 1. *Purposes.* The SEARLE MONSANTO STOCK OPTION PLAN of 1986 ("Plan") is designed to attract and retain for the Company and its Subsidiaries personnel of exceptional ability; to motivate such personnel through added incentives to make a maximum contribution to greater profitability; to develop and maintain a highly competent management team; and to be competitive with other pharmaceutical companies in the executive compensation area.

SECTION 2. *Definitions.* Except where the context otherwise indicates, the following definitions apply:

"Associated Company" means any corporation (or partnership, joint venture, or other enterprise), of which the Company owns or controls, directly or indirectly, 10% or more, but less than 50% of the outstanding shares of stock normally entitled to vote for the election of directors (or comparable equity participation and voting power), but which is not a Subsidiary.

"Board" means Board of Directors of the Company.

"Committee" means the Executive Compensation and Development Committee of the Board or any successor committee ("ECDC"), such other committee consisting of three or more members of the Board as may be appointed by the Board to administer this Plan, or such other body (whether or not consisting of members of the Board) to whom the ECDC or other Board committee may delegate its powers (or a part thereof) to administer this Plan.

"Company" means G. D. Searle & Co.

"Effective Date" means October 24, 1986, provided that Options granted hereunder are subject to the approval of the establishment of the Plan by the shareholders of the Monsanto Company, a Delaware Corporation and the parent corporation of the Company ("Monsanto").

"Eligible Participant" means any officer or other salaried employee (including a director who is a salaried employee) of the Company or a Subsidiary.

"Fair Market Value" means, with respect to any given day, the average of the highest and lowest sales prices of the Shares reported as the New York Stock Exchange-Composite Transactions for such day, or if the Shares were not traded on such day, then on the next preceding day on which the Shares were traded, all as reported by such source as the Committee may select.

"Participant" means an Eligible Participant to whom a Stock Option has been granted.

"Shares" means shares of $2 par value common stock of Monsanto, and any shares of stock or other securities received as a result of a Share adjustment as set forth in Section 4 of this Article I.

"Stock Option" or "Option" means a non-qualified stock option granted pursuant to this Plan.

"Subsidiary" means any corporation (or partnership, joint venture, or other enterprise) (i) of which the Company owns or controls, directly or indirectly, 50% or more of the outstanding shares of stock normally entitled to vote for the election of directors (or comparable equity participation and voting power) or (ii) which the Company otherwise controls (by contract or any other means). "Control" means the power to direct or cause the direction of the management and policies of a corporation, partnership, joint venture, or other enterprise.

"Termination of Employment" means the discontinuance of employment of a Participant for any reason other than a Transfer.

"Transfer" means a change of employment of a Participant within the group consisting of the Company, its Subsidiaries and Associated Companies and Monsanto, its subsidiaries and associated companies.

SECTION 3. *Administration.*

(a) This Plan shall be administered by the Committee. Any grant of an Option or authorization of payment in respect of an Option (pursuant to Article II, Section 1(c)), involving a Participant who is an officer or director of Monsanto (as defined in Section 16(b) of the Securities Exchange Act of 1934 and Rule 3b-2 issued pursuant to such Act), will be determined and/or approved by a Committee consisting of "disinterested persons" within the meaning of Rule 16b-3 under such Act, or any law, rule, regulation or other provision that may hereafter replace Rule 16b-3.

(b) The Committee shall have the exclusive right to interpret this Plan and to select (subject to paragraph (a) above) the persons who are to receive Stock Options under this Plan, including, without limitation, the determination of the number of Shares to be subject to and the form, terms, conditions and duration of each Stock Option and the amendment thereof, consistent with the provisions of this Plan. All acts and decisions of the Committee with respect to any questions arising in connection with the administration and interpretation of this Plan, including the severability of any and all of the provisions hereof, shall be conclusive, final and binding upon all Participants.

(c) The Committee may adopt and amend, from time to time, rules and regulations of general application for the administration of this Plan, including terms and conditions related to the receipt and exercise of Options. Such rules and regulations may include, at the Committee's discretion, the provision by the Company of loans for the purpose of financing the exercise of Options, and the amount of taxes payable in connection therewith.

(d) Without limiting the foregoing Sections 3(a), (b) and (c) of this Article I (and notwithstanding any other provisions of this Plan), the Committee is authorized to take such action as it determines to be necessary or advisable, and fair and equitable to Participants, with respect to Options in the event of: a merger of Monsanto with,

consolidation of Monsanto into, or the acquisition of Monsanto by, another corporation; a sale or transfer of all or substantially all of the assets of Monsanto to another corporation or any other person or entity; a tender or exchange offer for Shares made by any corporation, person or entity (other than Monsanto); or other reorganization in which Monsanto will not survive as an independent, publicly owned corporation. Such action may include (but shall not be limited to) establishing, amending or waiving the forms, terms, conditions and duration of Stock Options so as to provide for earlier, later, extended or additional times for exercise or payments, differing methods for calculating payments, alternate forms and amounts of payment, or other modifications. The Committee may take such actions pursuant to this Section 3(d) by adopting rules and regulations of general applicability to all Participants or to certain categories of Participants, by including, amending or waiving terms and conditions in Option grants, or by taking action with respect to individual Participants. The Committee may take such actions as part of the grants or before or after the public announcement of any such merger, consolidation, acquisition, sale or transfer of assets, tender or exchange offer or other reorganization.

SECTION 4. *Share Adjustments.* In the event that at any time or from time to time a stock dividend, stock split, recapitalization, merger, consolidation, or other change in capitalization, or a sale by Monsanto of all or part of its assets, or any distribution to shareholders other than a cash dividend results in (a) the outstanding Shares, or any securities exchanged therefor or received in their place, being exchanged for a different number or class of shares of stock or other securities of Monsanto, or for shares of stock or other securities of any other corporation; or (b) new, different or additional shares or other securities of Monsanto or of any other corporation being received by the holders of outstanding Shares, then:

(i) the limitation of 500,000 Shares set forth in Section 1(a) of Article II of this Plan;

(ii) the number and class of Shares (A) that may be subject to Stock Options and (B) which have not been issued or transferred under Stock Options; and

(iii) The purchase price to be paid per Share under unexercised Stock Options;

shall in each case be equitably adjusted as determined by the Committee in its sole discretion.

Article II. Plan

SECTION 1. *Option Shares.*

(a) (i) The total number of Shares for which Options may be granted under this Plan shall not exceed 500,000 Shares, subject to: (A) the adjustments provided for in Section 4 of Article I of this Plan and (B) the provisions of Section 1(b) of this Article II. Such Shares may be authorized but unissued Shares, or treasury Shares, or both.

(ii) The total number of Shares for which Options may be granted under this Plan to any one Eligible Participant shall not exceed in the aggregate 5% of the total number of

Shares for which Options may be granted under this Plan, subject to the adjustments provided for in Section 4 of Article I of this Plan.

(b) In the event that any unexercised Stock Option granted hereunder lapses or ceases to be exercisable for any reason other than a surrender of the Option pursuant to Section 1(c) of this Article II, the Shares subject to such Option shall again be available for Option grants under this Plan without again being charged against the limitation of 500,000 Shares set forth in Section 1(a) of this Article II. Any amendment of any Option by the Committee pursuant to Article I, Section 3 of this Plan shall not be considered the grant of a new Option.

(c) In the event of Termination of Employment for death, disability, hardship or unusual circumstances as determined by the Committee, the Committee may, with the consent of the Participant or his or her legal representative, authorize payment, in cash or in Shares, or partly in cash and partly in Shares, as the Committee may direct, of an amount equal to the difference at the time between the Fair Market Value of the Shares subject to an Option and the Option exercise price in consideration of the surrender of the Option. In such an event the Shares subject to the Option so surrendered shall be charged against the limitations set forth in Section 1(a) of this Article II.

SECTION 2. *Incidents of Options.*

(a) Each Stock Option shall be granted subject to such terms and conditions, if any, not inconsistent with this Plan, as shall be determined by the Committee, including any provisions as to continued employment as consideration for the grant or exercise of such Option and any provisions which may be advisable to comply with applicable laws, regulations or rulings of any governmental authority. Unless otherwise provided at the time of any Option grant and except as otherwise specifically provided in this Plan, Options shall only be exercisable by a Participant as follows:

Option Exercise Dates	Percentage of Total Shares Per Option Grant Exercisable
1. On and after twelve (12) months from the Option grant date	33⅓%
2. On and after twenty-four (24) months from the Option grant date	66⅔%
3. On and after thirty-six (36) months from the Option grant date....	100%

If the application of the foregoing vesting schedule would result in a fractional Share being issuable upon the exercise of an Option, the number of Options vested shall be rounded up to the next full Share, but not to exceed in the aggregate the original grant total.

(b) A Stock Option shall not be transferable by the Participant otherwise than by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Participant only by him or her or by his or her guardian or legal representative.

SECTION 3. *Conditions of Options.* The initial grant of Options under this Plan shall be made on October 24, 1986 and additional Options may be granted to Eligible Participants

at such time or times determined by the Committee, subject to the following terms and conditions:

(a) The Option exercise price per Share shall be established by the grant but shall not be less than 100% of the Fair Market Value at the time of the grant.

(b) The Option may be exercised in full or in part from time to time prior to Termination of Employment and within ten (10) years and thirty (30) days from the date of the grant, or such shorter period as may be specified by the Committee in the grant, provided that Options exercisable as of the date of Termination of Employment shall remain exercisable for a period of up to three (3) months following Termination of Employment (up to twelve (12) months if Employment shall have terminated as a result of death or total and permanent disability as determined by the Committee); provided, further, that no such period following Termination of Employment shall extend the original exercise period of the Option.

(c) In the event of Termination of Employment due to death or total and permanent disability (as determined by the Committee), all Options granted more than twelve (12) months prior to such event shall, notwithstanding Article II, Section 2, become immediately exercisable.

(d) The Option shall meet all of the conditions, other than the date of issuance, of a "Restricted Stock Option" as defined in Section 424(b) of the Internal Revenue Code of 1986, as amended from time to time, as in effect at the time of grant of such Option, or any statutory provision that may be enacted to replace such Section.

(e) The Option grant may include any other terms and conditions not inconsistent with this Plan, as determined by the Committee.

Article III. Miscellaneous Provisions

SECTION 1. *Transfer.* No Stock Option shall be transferable except as provided for herein in the case of death. If any Participant makes such a transfer in violation hereof, any obligation of the Company with respect to such Option shall forthwith terminate.

SECTION 2. *Continued Employment.* Nothing in this Plan or any booklet or other document describing or referring to this Plan shall be deemed to confer on any employee or Participant the right to continue in the employ of his or her employer or affect the right of his or her employer to terminate the employment of any such person with or without cause.

SECTION 3. *Segregated Fund.* Nothing contained herein shall require the Company to segregate any monies from its general funds, or to create any trusts, or to make any special deposits for any immediate or deferred amounts payable to any Participant, nor require Monsanto to segregate any treasury Shares.

SECTION 4. *Governing Law.* This Plan and all actions taken hereunder shall be governed by the laws of the State of Illinois.

SECTION 5. *Withholding*. The Company may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes which the Company is required by any law or regulation of any governmental authority, whether federal, state or local, domestic or foreign, to withhold in connection with any Stock Option or the exercise thereof.

Article IV. Amendments

SECTION 1. *Amendment or Termination of Plan*. The Board, the ECDC or any other duly authorized committee of the Board may from time to time amend this Plan, or discontinue this Plan or any provision thereof, provided that no amendments or modifications to this Plan shall, without the prior approval of the shareholders normally entitled to vote for the election of directors of Monsanto:

(a) change the number of Shares for which Stock Options may be granted, or the percentage thereof which may be made subject to Options granted to any one Eligible Participant, as set forth in Section 1(a) of Article II of this Plan;

(b) limit or restrict the powers of the Committee with respect to the administration of this Plan; or

(c) change any of the provisions of this Article IV.

SECTION 2. *Effect on Options*. No amendment or discontinuance of this Plan or any provision thereof shall, without the written consent of the Participant, adversely affect any Stock Option theretofore granted to such Participant under this Plan.

Article V. Miscellaneous

SECTION 1. *Effective Date*. Options issued under this Plan shall be subject to the receipt of approval of this Plan by requisite vote of the shareholders of Monsanto as described under the definition of Effective Date. If this Plan is not so approved, all Options previously granted shall be null and void.

SECTION 2. *Other Plans*. This Plan is not intended to and shall not preclude the establishment or operation by the Company or any Subsidiary of any thrift, savings and investment, achievement award, stock purchase, incentive, employee recognition or other benefit plan or arrangement for any employees and any such other plan may be authorized and payments made thereunder independently of this Plan.

Notice of Annual Meeting of Stockholders and Proxy Statement

Monsanto

SHAREOWNER INFORMATION

Annual Meeting
The next Annual Meeting of the shareowners of Monsanto Company will be held at 1:45 p.m., Friday, April 24, 1987, in K Building at the Company's World Headquarters, 800 N. Lindbergh Blvd., St. Louis, Missouri. A formal notice of the meeting, together with a proxy statement, is being mailed to each shareowner.

10-K Report, Corporate Data Book and Investor News
A copy of Monsanto Company's 1986 Form 10-K Report filed with the Securities and Exchange Commission; 1986 Corporate Data Book, which contains additional information relating to Monsanto; and Investor News can be obtained by writing to:

Investor Relations Department
Monsanto Company
800 N. Lindbergh Blvd.
St. Louis, Missouri 63167

Stock Symbol = MTC

Stock Exchanges/Bourses

United States:
New York
Chicago (options)

Europe:
Amsterdam
Brussels
Frankfurt
Geneva
London
Paris
Zurich

Transfer Agent and Registrar
The First National Bank of Boston
Box 644
Boston, Massachusetts 02102

The photographs on pages 6 through 14 include the following employees:
Page 6: William Alston, The NutraSweet Company. Page 9: (clockwise, from top center) Jim Altemus, Lori Fisher and Alvaro Canizares, all Monsanto Agricultural Company. Page 10: (bottom) John Washburn, Monsanto Agricultural Company. Page 13: (top) Tom Landthorn, G.D. Searle & Co.; (bottom) Jim Young, Monsanto Chemical Company. Page 14: (top) Gary Stanulus, Fisher Controls International, Inc.

MONSANTO COMPANY
800 North Lindbergh Boulevard
St. Louis, Missouri 63167